

NEW ISSUE

*In the opinion of Bond Counsel, interest on the Notes is exempt from Federal income taxation under Section 11(b) of the United States Housing Act of 1937, as amended, and the regulations promulgated thereunder, and is not includable as gross income under the New Jersey Gross Income Tax Act (P.L. 1976 C. 47).*

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# HOUSING FINANCE CORPORATION OF THE CITY OF NEWARK

(An Instrumentality of the Housing Authority of the City of Newark, New Jersey)  
Construction Notes (1979 Section 8 Assisted FHA Insured Projects)

Dated: October 1, 1979

Due:

Principal and interest (interest payable on 1 and 1 of each year, commencing ) are payable at the principal office of Fidelity Union Trust Company, Newark, New Jersey. Interest on fully registered Notes is payable by check or draft mailed or delivered to the registered owners thereof. The Notes will bear interest at the rate of % per annum. The Notes are issuable as coupon notes in the denomination of \$5,000 each, or as fully registered notes in denominations of \$5,000 or any integral multiple thereof. The Notes are subject to redemption prior to maturity as more fully described herein.

The Notes are being issued by the Corporation principally to provide interim financing for mortgage loans to certain private developers for the construction and rehabilitation of 235 dwelling units in four housing projects. The dwelling units will be leased in substantial part to persons and families of low income eligible for assistance under Section 8 of the United States Housing Act of 1937, as amended, and the regulations promulgated thereunder. Construction advances of mortgage monies will be insured by FHA under Section 221(d)(4) of the National Housing Act, as amended.

The Notes are payable solely from the proceeds of the Mortgage Revenue Bonds (1979 Section 8 Assisted FHA Insured Projects) of the Corporation, when and if issued, and upon the timely completion of each Project, its acceptance by HUD and the final endorsement of the related Mortgage Note for insurance by FHA (except to the extent payable from Note proceeds, income from investments and, under certain circumstances, the proceeds of casualty insurance and condemnation awards), and are secured solely by a pledge of (i) a first mortgage lien on the Projects, (ii) the Mortgage Notes, initially endorsed for insurance by FHA, (iii) conditional assignments of Housing Assistance Payments, all leases of dwelling units in the Projects and all rights and claims payable to the Owners in connection with the operation and maintenance of the Projects and (iv) any monies available in the Construction Fund established under the Construction Loan Agreement, to the extent such monies are not applied to the costs of construction and rehabilitation of the Projects. *The Notes are special obligations of the Corporation and are not a debt of the Authority, the City of Newark, the County of Essex, the State of New Jersey or any political subdivision thereof, or of the United States of America or any agencies or departments thereof. The Corporation has no taxing power.*

*The Notes are offered when, as and if issued by the Corporation and received by the Underwriters named below, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of the legality of the Notes by Kraft & Hughes, Newark, New Jersey, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Willkie Farr & Gallagher, New York, New York. It is expected that the Notes, in definitive form, will be available for delivery in New York, New York, on or about October 1, 1979.*

\* Proposed; subject to change.

**BLYTH EASTMAN DILLON & CO. FIDELITY UNION TRUST COMPANY**  
INCORPORATED

October 1, 1979

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Newark  
- Housing Authority  
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No dealer, broker, salesman or other person is authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Notes, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy the Notes, nor shall there be any sale of the Notes by any person, in any jurisdiction in which it is unlawful to make such offer, sale or solicitation, and no dealer, broker, salesman or other person has been authorized or is authorized by the Corporation, the Authority or the Underwriters to make such offer, sale or solicitation. The information contained in this Official Statement has been obtained from the Authority, the Corporation and other sources deemed reliable, but no representation or guarantee is made by the Underwriters as to the accuracy or completeness of such information and nothing contained in this Official Statement is, or shall be construed or relied upon as, a promise or representation by the Underwriters. This Official Statement is submitted in connection with the sale of the securities described herein and may not be reproduced or used, in whole or in part, for any other purpose. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the Authority or imply that the information contained herein is correct as of any time subsequent to the date hereof.

The Notes have not been registered under the Securities Act of 1933, and the Construction Loan Agreement has not been qualified under the Trust Indenture Act of 1939.

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Newark  
- Housing Authority  
- Misc.  
**OFFICIAL STATEMENT**

**HOUSING FINANCE CORPORATION OF THE CITY OF NEWARK**

(An Instrumentality of the Housing Authority of the City of Newark, New Jersey)

Construction Notes (1979 Section 8 Assisted FHA Insured Projects)

**INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page and appendix, is being distributed to provide information in connection with the issuance and sale of \$ \* aggregate principal amount of Construction Notes (1979 Section 8 Assisted FHA Insured Projects), dated 1, 1979 (the "Notes"), by the Housing Finance Corporation of the City of Newark (the "Corporation"), a nonprofit corporation organized and existing under the laws of the State of New Jersey (the "State") and an instrumentality of the Housing Authority of the City of Newark, New Jersey (the "Authority"). The Notes will be issued under and secured by a Building Loan Agreement, dated as of 1, 1979 (the "Building Loan Agreement"), by and among the Corporation, the owners of the projects to be financed thereby (the "Owners") and Fidelity Union Trust Company, as trustee (the "Trustee"), granting to the Trustee for the benefit of the Noteholders all right, title and interest of the Corporation in and to (i) a first mortgage lien (the "Mortgage") on the Projects, as hereinafter defined, (ii) a lien on the non-recourse mortgage notes evidencing the mortgage loans (the "Mortgage Notes"), initially endorsed for insurance by the Federal Housing Administration ("FHA") of the United States Department of Housing and Urban Development ("HUD"), (iii) conditional assignments of the Housing Assistance Payments, as hereinafter defined, all leases of dwelling units in the Projects and all rights and claims payable to the Owners from any source in connection with the operation and maintenance of the Projects, and (iv) a lien on any monies available in the Construction Fund established under the Construction Loan Agreement, to the extent such monies are not applied to the costs of construction and rehabilitation of the Projects. (See "Security for the Notes" herein.)

The Notes are being issued principally to provide interim financing for mortgage loans to the various Owners, each a limited dividend housing association organized and existing under the laws of the State, for the construction and rehabilitation of 235 dwelling units in four housing projects, consisting of 60 units to be located at 29 Stratford Place (the "Aspen-Stratford Apartments Company B Project"), 55 units to be located at 19 Stratford Place (the "Aspen-Stratford Apartments Company C Project"), 38 units to be located at (the "Somerset Housing Associates Project"), and 82 units to be located at (the "Livingston Homes Associates Project") in the City of Newark, New Jersey (the "Projects"). Construction advances of mortgage monies will be insured by FHA under Section 221(d)(4) of the National Housing Act, as amended (the "National Housing Act"). (See "FHA Mortgage Insurance" herein.) The dwelling units will be leased in substantial part to persons and families of low income eligible for assistance under Section 8 of the United States Housing Act of 1937, as amended, and the regulations promulgated thereunder (the "United States Housing Act").

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The Owners will construct and rehabilitate each Project pursuant to a Building Loan Agreement (the "Building Loan Agreement") between the Owner, as borrower, and the Corporation, as lender. The Owners have each entered into a Regulatory Agreement (the "Regulatory Agreement") with HUD for the operation and maintenance of the Projects, which requires, in part, the establishment of a reserve fund for replacements. The Mortgage Notes, the Mortgages, the Building Loan Agreements and the Regulatory Agreements are in such standard forms as approved for mortgage loans insured by FHA under the National Housing Act. (See "Summary of Mortgage Loan Documents" herein.)

\*Proposed; subject to change.

The Owners have each entered into an Agreement to Enter Into Housing Assistance Payments Contract (the "Agreement to Enter") with HUD, whereby HUD agrees to execute HAP Contracts upon the timely completion of the respective Projects and their acceptance by HUD. Pursuant to the terms and conditions of each HAP Contract, HUD will agree to make housing assistance payments monthly to the Owner on behalf of each Eligible Tenant (the "Housing Assistance Payments").

The proceeds from the sale of the Notes will be deposited by the Trustee as follows: (i) an amount equal to the accrued interest on the Notes, if any, in the Interest Account established in the Construction Fund and (ii) the remaining proceeds in the Construction Fund, to be deposited by the Trustee upon the receipt from each Owner of its Mortgage Note, as initially endorsed by FHA, in a separate Construction Account established in the Construction Fund in an amount equal to the principal amount of the related Mortgage Note. Disbursements from each Construction Account will be made solely with respect to the related Project, with the exception of the initial disbursement therefrom, which shall constitute *pro rata* amount of the costs of issuance of (i) the Notes and (ii) the bonds of the Corporation to be issued to permanently finance the mortgage loans, as hereinafter more fully described, and other expenses. The proceeds of the Notes, to the extent not disbursed, will be invested by the Trustee in obligations authorized for investment by fiduciaries under the laws of the State.

It is anticipated that the Notes will be paid from the proceeds of the Mortgage Revenue Bonds (1979 Section 8 Assisted FHA Insured Projects) of the Corporation (the "Bonds") to be issued concurrently herewith and delivered simultaneously with the delivery of the Notes. The Bonds will be issued under and secured by an Indenture of Trust, dated as of October 1, 1979 (the "Indenture"), between the Corporation and Fidelity Union Trust Company, as trustee for the holders of the Bonds. The proceeds from the sale of the Bonds will be held in escrow for the benefit of the holders of the Bonds during the construction period for each Project, whereupon, as and if a Project is timely completed and accepted by HUD and the related Mortgage Note is finally endorsed for insurance by FHA, a proportional amount of such proceeds will be applied, in accordance with the terms of the Indenture, to pay or defease such amount of the Notes as is allocated to the Project under the Construction Loan Agreement. (See "Summary of Construction Loan Agreement" herein.) The proceeds of the Bonds will be invested by the trustee under the Indenture in Investment Obligations, as defined in the Indenture.

*This Official Statement is not being distributed in connection with the issuance and sale of the Bonds. Information with respect to the Bonds is set forth in a separate official statement available from the Corporation upon request.*

All capitalized terms used in this Official Statement that are defined in the Construction Loan Agreement have the same meanings as set forth therein, unless the context otherwise requires. The summaries or references to the agreements, documents, statutes or instruments referred to herein, which are included in this Official Statement, do not purport to be comprehensive or definitive and such summaries, references and descriptions are qualified by reference to each such agreement, document, statute or instrument.

## DESCRIPTION OF THE NOTES

### Payment of Principal and Interest; Registration

The Notes are dated , 1979 and shall mature on , 19 . The Notes will bear interest at the rate of % per annum from , 19 , payable on 1 and 1 of each year, commencing

The Notes are issuable as coupon notes in the denomination of \$5,000 each, or as fully registered notes in denominations of \$5,000 or any integral multiple thereof. The principal of and interest on the Notes are payable at the principal office of Fidelity Union Trust Company, Newark, New Jersey, as paying agent. Interest on fully registered Notes is payable by check or draft mailed or delivered to the registered owners thereof.

#### **Redemption**

The Notes are not subject to redemption prior to maturity except as hereinafter described. If with respect to any Project on the earlier of (i) or (ii) the scheduled completion date for such Project set forth in the related Agreement to Enter, as such date may be extended, the Mortgage Note has not been delivered to the Trustee and an amount equal to the principal amount thereof has not been deposited in the respective Construction Account to fund the related mortgage loan, that portion of the monies then on deposit in Construction Fund allocated to such Project shall be applied to redeem outstanding Notes at 100% of the par value thereof plus interest accrued to the date fixed for redemption.

#### **Additional Notes**

Under certain conditions specified in the Construction Loan Agreement, including (i) all necessary approvals therefor under the United States Housing Act, (ii) appropriate amendment of the Agreement to Enter and HAP Contract, (iii) an increase of the FHA mortgage insurance in an amount equal to the principal amount of the additional Notes and (iv) the issuance of additional Bonds in a principal amount or the availability of monies sufficient to pay the additional Notes, the Corporation may issue additional Notes on a parity with the Notes for the purpose of providing funds to pay the cost of completing one or more of the Projects.

#### **SECURITY FOR THE NOTES**

The Notes are special obligations of the Corporation payable solely from the proceeds of the Bonds, when and if issued, and upon the timely completion of each Project, its acceptance by HUD and the final endorsement of the related Mortgage Note for insurance by FHA (except to the extent payable from Note proceeds, income from investments and, in certain circumstances, the proceeds of casualty insurance and condemnation awards) and are secured solely by a pledge of all right, title and interest of the Corporation in and to (i) a first mortgage lien on each Project, subject to Permitted Exceptions, as defined in the Construction Loan Agreement, under the Mortgage thereof, (ii) the Mortgage Notes, initially endorsed for insurance by FHA, (iii) conditional assignments of the Housing Assistance Payments, all leases of dwelling units in the Projects and all rights and claims payable to the Owners from any source in connection with the operation and maintenance of the Projects and (iv) a lien on any monies available in the Construction Fund, to the extent such monies are not applied to the costs of construction and rehabilitation of the Projects. (See "Risks to Noteholders" herein.) The assignments described in (iii) above are each conditioned upon a default by the Owner on the related Mortgage Note, Mortgage, Building Loan Agreement, the Indenture or other financing documents, or in the performance of any obligation, covenant or agreement in the related HAP Contract, leases or, with respect to the Fairview Homes Associates, Ltd. Project for which the Authority is lessee, the lease agreement between the Owner thereof and the Authority. Permitted Exceptions include (i) liens as described in the mortgagee's title policy and acceptable to the Trustee, (ii) utility, access or other easements and rights of way, restrictions and exceptions which do not, individually or in the aggregate, materially impair the utility or value of the property effected thereby for the purposes for which it is intended and (iii) liens for taxes at the time not delinquent.

*The Notes are not a debt of the Authority, the City of Newark, the County of Essex, the State of New*

*Jersey or any political subdivision thereof, or of the United States of America or any agencies or departments thereof. The Corporation does not have taxing power.*

The Construction Loan Agreement requires that each Owner maintain, or cause its contractors to maintain, builder's risk coverage or its equivalent upon work undertaken and materials furnished under the appropriate construction contract, except excavations, foundations and other structures not customarily so insured, in at least the principal amount of the related Mortgage Note, which shall name the Owner, the Corporation and the Trustee, as FHA mortgagee. Under the Construction Loan Agreement each Owner is further required to procure and maintain title insurance, with such exceptions as approved by the Trustee, insuring the Corporation and the Trustee, as FHA mortgagee, as their respective interests may appear. (See "Summary of Construction Loan Agreement" herein.)

#### **RISKS TO NOTEHOLDERS**

The Notes are payable solely from the proceeds of the Bonds, as hereinbefore described. No representation or assurance can be made that all or any of the Projects will be timely completed and accepted by HUD and the respective Mortgage Notes finally endorsed for insurance by FHA. In any such event, the first lien of the Indenture on Bond proceeds would not be discharged with respect to such uncompleted Projects. (But see "FHA Mortgage Insurance" herein.) The factors hereinafter set forth, or the occurrence of unanticipated events or conditions, may adversely affect the estimates contained in this Official Statement.

Prospective purchasers of the Notes should consider carefully the following factors, among others, which may affect the availability of monies to pay the principal of or interest on the Notes:

- (1) *Non-completion of the Projects:* Construction of the Projects is expected to commence on or about such dates, with scheduled completion dates, as follows:

In the event that the construction and rehabilitation of any Project is not commenced, a proportionate amount of the Notes will be redeemed at 100% of the par value thereof plus interest accrued to the date fixed for redemption. (See "Description of the Notes—Redemption" herein.)

Under the Agreement to Enter, construction of the related Project must be completed no later than the scheduled completion date therefor, unless the time for completion is otherwise extended in accordance therewith: the Indenture provides that in no event shall the time for completion of any Project be extended beyond the scheduled completion date therefor except as approved by HUD and to the extent adequate provision has been made for the payment of debt service on the Bonds to and including the scheduled completion date as extended. The HAP Contract will not be executed and Housing Assistance Payments will not be made by HUD unless the related Project is timely completed and accepted by HUD and unless the other conditions specified in the Agreement to Enter are fulfilled. Arrangements as described in this Official Statement are intended to provide for satisfactory completion of each Project and fulfillment of other applicable conditions. It is possible that such arrangements may not be sufficient to accomplish this intended result.

In the event of non-completion of any Project or its non-acceptance by HUD by the then scheduled completion date, a proportionate amount of the proceeds of the Bonds, as determined under the Indenture, will not be available to pay the Notes.

- (2) *Investment Earnings:* The investment earnings which have been estimated herein are based on assumed interest rates, as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the Trustee is permitted to invest under the Construction Loan Agreement, there can be no assurance

that similar interest rates will be available on such securities in the future, nor is there any assurance that the potential accumulations as estimated will actually be realized.

(3) *Secondary Market:* There is no established secondary market for the Notes and there is no assurance that a secondary market will develop for the purchase and sale of the Notes. In addition, future adverse developments in the financial condition of the City of Newark may have an unfavorable impact upon the bid and asked price for the Notes in any secondary market. The Underwriters are not obligated to repurchase any of the Notes at the request of the holder or holders thereof and do not guarantee that there will be a continuing secondary market in the Notes.

(4) *Maintenance of Ratings:* There is no assurance that the credit rating assigned to the Notes at the time of issuance or at a subsequent time will not be lowered or withdrawn, the effect of which could adversely affect the market price and the market for the Notes. (See "Ratings" herein.)

(5) *Payment Under FHA Mortgage Insurance:* Insurance benefits paid by FHA in respect of a defaulted Mortgage Note ordinarily will not include accrued and unpaid interest thereon. (In the event that HUD approves the assignment of a Mortgage Note involving a default beyond the control of the Owner, the insurance benefits payable to the mortgagee include the unpaid principal balance thereof as of the date of the assignment, together with accrued interest thereon.) While any insurance benefits paid by FHA will include interest on the insurance proceeds from the date of the default at the HUD debenture rate in effect as of the date on which the firm commitment for insurance was issued or as of the date of the initial endorsement of the Mortgage Note, whichever is higher (which interest may be limited in the event that certain notices are not given to HUD within the prescribed time periods), no assurance can be given that in the event of a default in the payment of a Mortgage Note, sufficient insurance proceeds will be realized to redeem the Bonds at 100% of the par value thereof plus interest accrued to the date of redemption.

#### ESTIMATED USES AND SOURCES OF FUNDS

Estimated uses and sources of funds for each Project are tabulated below.

##### Uses

##### Sources

Assumptions:

## PROJECTED COVERAGE OF DEBT SERVICE ON THE NOTES

### Projected Debt Service Coverage

## THE CORPORATION

### Powers

The Corporation is a nonprofit corporation organized and existing under Title 15 of the laws of the State. The Corporation was formed on December 21, 1977 as the Clinton Avenue Housing Association Inc. for the purpose of promoting and advancing the development of housing for persons of low income in the City of Newark by, among other things, issuing tax-exempt debt and lending proceeds to the private developers of housing projects. In a resolution of the Board of Trustees dated February 15, 1978, the name of the Corporation was changed to Housing Capital Corporation No. 4. On September 29, 1978, the Board of Trustees resolved to rename the Corporation the Housing Finance Corporation of the City of Newark. Under its Articles of Incorporation, By-Laws, and governing statute, the Corporation is empowered to borrow money as necessary to finance the cost of such housing and to pledge its assets to secure such borrowing. Prior to the initiation of any program or the expenditure of any funds, the Corporation shall receive the approval of the Authority. The Corporation is deemed by HUD to be an instrumentality of the Authority in accordance with Section 11(b) of the United States Act, as amended, and the regulations promulgated thereunder.

### Organization and Membership

The Corporation is governed by a Board of Trustees consisting of seven Trustees who are required by the By-Laws of the Corporation to be members of the Board of Commissioners of the Authority or officers of the Authority. The officers of the Corporation's Board include a President, Vice President, Secretary and Treasurer. The officers and members of the Corporation's Board of Trustees are appointed by the Authority's Board of Commissioners. The Trustees serve for an indefinite term. The Trustees and their corporate positions are listed as follows:

<u>Name</u>	<u>Corporation Board Position</u>	<u>Authority Relationship</u>
Milton A. Buck .....	President	Executive Director
Pearl Beatty .....	Vice President	Chairperson, Board of Commissioners
Emil W. Nardachone .....	Secretary	General Counsel
Dennis J. Callaghan .....	Treasurer	Director of Redevelopment
Milliard E. Terrell .....	Member	Commissioner
James Cundari .....	Member	Vice-Chairperson, Board of Commissioners
William Reid .....	Member	Chief, Housing Production



## THE AUTHORITY

### Powers

The Authority is a public body corporate and politic exercising public and essential governmental functions and having all the powers necessary to carry out its duties in accordance with Title 55 of the laws of the State. By law the Authority is empowered to own, lease, and operate low income housing in the City of Newark. The Authority's executive offices are located at 57 Sussex Avenue, Newark, New Jersey 07103. Its telephone number is (201) 430-2430.

### Organization and Membership

The Authority was organized in 1938 for the purpose of providing housing for persons or families of low income. The membership of the Authority is contained in its Board of Commissioners which may consist of seven Commissioners, five of whom are appointed by the Mayor of the City of Newark with the approval of the City Council, one of whom is appointed by the Mayor without the concurrence of the City Council, and one of whom is appointed by the New Jersey Commissioner of Community Affairs. Appointments to the Board are for a term of five years, except for the appointee of the New Jersey Commissioner of Community Affairs who serves at the discretion of the New Jersey Commissioner of Community Affairs. The powers of the Authority are vested in the Board. No Commissioner receives any compensation for his or her services but is entitled to the necessary expenses incurred in the discharge of his or her duties. The names and titles of the Commissioners, their occupations, years of service and expiration dates for term of office are shown below:

<u>Name and Title</u>	<u>Occupation</u>	<u>Years of Service</u>	<u>Term Expires</u>
Pearl Beatty, Chairperson .....	Executive Secretary, Insurance Fund Commission, Newark, New Jersey; President, Board of Freeholders of the County of Essex, New Jersey	9	April 1980
James Cundari, Vice Chairperson ..	Attorney, Newark, New Jersey	6	April 1982
Millard E. Terrell, Treasurer (Resident in Authority Housing) .....	Logistics officer, USAF Waterport Logistics Office, Bayonne, New Jersey	6	April 1981
Peter Yablonsky, Member .....	President Emeritus, Painters' District Council No. 10, Newark, New Jersey	4½	*
Rudolph F. Novotny, Member .....	President, U.S. Savings Bank, Newark, New Jersey	3	†
Carolyn Perry, Member .....	Employed on the Staff of Council for Airport Opportunity, Newark, New Jersey	3	April 1983
Iris R. Rodriguez, Member .....	Social Worker and director of a youth program at Field Orientation Center for Underprivileged Spanish (FOCUS), Newark, New Jersey	½	February 1984

\* Term expired April, 1979. Mr. Yablonsky has neither been reappointed as a Commissioner by the Board nor has he been replaced. The Authority's charter provides that a Commissioner to the Board whose term has expired will continue to serve as such until reappointed or replaced.

† Serves at the discretion of the New Jersey Commissioner of Community Affairs.

## Authority Management

The management of the Authority is the responsibility of the following persons:

**MILTON A. BUCK, Executive Director.** Mr. Buck assumed the position of Executive Director to the Authority in July, 1979 and as such he is the chief executive officer of the Authority. The Executive Director also serves as the Secretary of the Authority. Prior to becoming Executive Director of the Authority, Mr. Buck engaged in the private practice of law and served the public in various capacities: first, as Assistant Prosecutor for the County of Essex, and later, for the City of Newark, as Municipal Judge, Corporation Counsel and, most recently, Business Administrator. Mr. Buck is also Vice-Chairman of the New Jersey Board of Higher Education and President of the Newark Symphony.

**HUGH R. HILL, Deputy Executive Director.** Mr. Hill has served in his present position continuously from December 1972, except for a period from May 1978 to June 1979 in which he served as Acting Executive Director to the Authority. Previous positions in the Authority include Assistant Executive Director of Relocation and Social Services, Director of Relocation, and Coordinator of Relocation Activities. Before joining the Authority in 1968, Mr. Hill was Director of Human Resources under the Model Cities Program for Newark. Earlier experience includes that as Relocation Manager for the Philadelphia Redevelopment Authority and several other positions in social service activities.

**EMIL W. NARDACHONE, General Counsel.** Mr. Nardachone assumed the position of General Counsel to the Authority in January, 1979 and as such he is responsible for the administration of the Authority's legal department and has overall responsibility for legal matters pertaining to the Authority. In prior positions with the Authority, Mr. Nardachone has served as Associate Counsel and then as Senior Associate Counsel. Mr. Nardachone has been with the Authority since 1974.

**ROBERT E. HAWKS, Director of Administration.** Mr. Hawks directs the administrative services of the Authority. Previously he was Fiscal Accountability Project Director for the Finance Department of the City of Newark. In addition, he is in charge of contract administration. Other positions were as Systems Analyst, Assistant to the Business Administrator, and Budget Examiner, all for the City of Newark. Mr. Hawks has been with the Authority since 1975.

**DENNIS J. CALLAGHAN, Director of Redevelopment.** Mr. Callaghan reports to the Executive Director and is responsible for Urban Renewal and Community Developmental Projects within the jurisdiction of the Authority. He is responsible for production activities in connection with Housing, Commercial and Industrial projects. Since joining the Authority in 1971, he has served as Assistant to the Executive Director in the areas of internal operations, special projects and administrative management of the executive office, and as Personnel Technician in the administration of personnel and labor relations activities. Mr. Callaghan held a management position with a major restaurant chain before coming to the Authority.

**G. DOUGLAS CANNON, Director of Housing.** Mr. Cannon administers the Housing Department, including the central rent collection office. Previously he was Assistant Director of Housing, Director of Management, Chief of Occupancies and Chief of Housing Management. Mr. Cannon has also held various positions in housing management at the project level. He held positions in private companies before joining the Authority in 1954.

**ANTHONY F. PETROZZINO, Director of Operations.** Mr. Petrozzino is in charge of the authority's construction and maintenance program. Manpower allocation and evaluation is a major responsibility of his job. In addition, he provides counselling to Authority tenants on such matters as conservation of energy and prevention of vandalism.

MARIA L. FALGIANI, Director of Staff Operations. Ms. Falgiani assumed the position of Director of Staff Operations of the Authority in July, 1979 and as such assists the Executive Director in the coordinator of staff operations and in the development and implementation of the annual budget. The Director of Staff also directs the public relations program of the Authority. Prior to becoming Director of Staff Operations of the Authority, Ms. Falgiani served as the Assistant to the Business Administrator of the City of Newark and was a management specialist for the Department of Health and Welfare of the City of Newark.

## Operations

Housing projects which have been undertaken by the Authority and are currently operated are listed below. These projects are government-subsidized, low income projects, but only one, Branch Brook Park Manor, receives Section 8 Housing Assistance Payments. All but two of these projects are operated by the Authority rather than by a private management company. Due to differences in subsidies, management and a variety of other factors, there can be no assurance that occupancy of the Projects will continue at the levels shown for these projects.

Project Name and Address	Number Of Units	Built	Average Occupancy For Year Ended August 20, 1979
Seth Boyden Court .....	529	1941	98.6%
124 Seth Boyden Terrace			
Seth Boyden Court .....	360	1969	94.7%
27 Foster Street			
Seth Boyden Court .....	200	1969	99.0%
839 Frelinghuysen Avenue			
Pennington Court .....	234	1940	98.3%
214 South Street			
Baxter Terrace ..	568	1941	99.3%
25 Summit Street			
Baxter Terrace ..	250	1967	98.4%
25 Summit Street			
Stephen Crane ..	354	1940	99.1%
900 Franklin Avenue			
Stephen Crane ..	198	1962	97.9%
60 Cedar Lane			
Stephen Crane ..	375	1968	99.2%
900 Franklin Avenue			
Stephen Crane ..	375	1968	97.8%
801 No. 6th Street			
Hyatt Court .....	400	1942	98.2%
2 Roanoke Court			
Felix Fuld .....	297	1942	98.6%
147 Rose Street			
Roosevelt Homes .....	273	1946	98.9%
35 Riverview Court			
Branch Brook Park Manor ..	200	1978	99.5% (1)
1 Branch Brook Park Plaza			
Kretchmer Homes ..	730	1953	96.5%
71 Ludlow Street			
Kretchmer Homes .....	198	1962	94.9%
963 Frelinghuysen Avenue			

Kretchmer Homes .....	440	1968	96.8%
963 Frelinghuysen Avenue			
Walsh Homes .....	621	1953	93.0%
1945 McCarter Highway			
Hayes Homes .....	1455	1954	92.4%
68 Boyd Street			
Hayes Homes .....	98	1962	92.8%
68 Boyd Street			
Columbus Homes .....	1149	1956	71.3% (2)
112 8th Avenue			
Bradley Court .....	301	1940	96.3%
46 North Munn Avenue			
Stella Wright .....	1136	1959	97.1%
159 Spruce Street			
Scudder Homes .....	1674	1963	54.2% (2)
165 Court Homes			
James C. White Manor . . . . .	206	1976	99.3%
516-18 Bergen Street			

(1) Housing Assistance Payments commenced July 15, 1978.

(2) Columbus Homes and Scudder Homes projects are currently undergoing substantial modernization. The relatively low occupancy rates in these projects, according to the Authority, are a result of this process of modernization

#### Staff and Operations

The Authority has 1,193 employees, allocated as follows. 111 administrative, 27 professional, 35 technical, 118 paraprofessional, 95 protective services, 162 office and clerical, 270 skilled and 375 service and maintenance. The Authority's operations are divided into three basic groups (i) a public housing program, consisting of 774 employees, which provides for the operation and maintenance of Authority housing, (ii) an urban renewal and redevelopment program, consisting of 54 employees, which provides for the development, acquisition, redevelopment and rehabilitation of new properties for use in housing, commercial or industrial purposes or by the public, all in accordance with an urban renewal plan, and (iii) a special programs division, consisting of 365 employees, which provides on-the-job training for CETA (Comprehensive Employment Training Act) program trainees, a special construction program, security for Authority housing, a homeowner counseling program and a program whereby tenants participate in the management of Authority housing.

#### Financial Advisor

Peter R. Morris, Chicago, Illinois, serves as financial advisor to the Authority with respect to the Authority's housing projects and has provided services in connection with the financing of the Project

## THE PROJECTS

### **Aspen-Stratford Apartments Company B Project\***

#### *The Owner*

The Owner of the Aspen-Stratford Apartments Company B, Project (hereinafter in this subsection referred to as the "Aspen B Project"). Aspen-Stratford Apartments Company B, is a limited partnership and a limited dividend housing association organized and existing under the laws of the State. The Owner will be responsible for the development, construction and operation of the Aspen B Project, subject to HUD regulation, supervision and inspection. The Owner has, and will have, no other substantial assets and no other business activities other than the ownership and operation of the Aspen B Project.

The sole general partner of the Owner is Housing Supervisors Corporation, 56 Park Place, Newark, New Jersey 07102 (the "General Partner"). The General Partner is a wholly owned subsidiary of The Aspen Group, Inc., 56 Park Place, Newark, New Jersey 07102.

The General Partner plans to syndicate ownership of the Aspen B Project among a group of limited partners, although after syndication the General Partner will retain control of the operations of the Aspen B Project. At the present time, the gross syndication proceeds, timing of installment payments, if any, and ownership percentage of the Owner to be acquired by the investors cannot be estimated, although the General Partner after the syndication intends to retain as the sole general partner of the Owner at least a 5% partnership interest in the Owner. The funds, if any, provided by such sale will be principally used to pay various fees to the General Partner of the Owner and its affiliates. At the present time, there is one limited partner, Ira A. Levy, who intends to withdraw from the partnership upon the admission of other investors as limited partners. Mr. Levy serves as legal counsel to the Owner and to the General Partner and its affiliates.

The Owner, the General Partner and its affiliates, including particularly The Aspen Group, Inc., expect to profit from the development, ownership and operation of the Project in several ways. First, the General Partner and The Aspen Group, Inc., by virtue of their affiliation with the ownership of the Design Architect, the Contractor and the Management Agent (as hereinbelow described), expect to receive substantial fees from the design, construction and management of the Aspen B Project. Second, the Owner will receive those revenues, if any, not otherwise necessary for the payment of the principal of and interest on the Bonds and the payment of the operating and other expenses of the Aspen B Project in accordance with the Indenture, limited to six percent (6%) per annum of the Owner's equity investment as such is calculated according to HUD rules and regulations annually. Third, the Owner is expected to receive substantial tax benefits from depreciation allowances on the Aspen B Project, to the extent they may be utilized, and will benefit from the eventual appreciation, if any, in the value of the Aspen B Project.

#### *The Aspen Group, Inc.*

The Aspen Group, Inc., 56 Park Place, Newark, New Jersey 07102, owns 100% of the outstanding stock of the General Partner, the Design Architect, the Contractor and the Management Agent. The Aspen Group, Inc., by virtue of its ownership of these participants, expects to profit from the design, construction, ownership and management of the Project.

\* Information under this caption was provided by

The principals and sole, equal shareholders of The Aspen Group, Inc. are Sanford Gallanter and Elliot Schneider. Mr. Gallanter, 51 years old, is a certified public accountant and an attorney. He has a Bachelor of Science degree with honors from the Rutgers University School of Business Administration, and a Doctor of Jurisprudence degree from the Rutgers University School of Law. He has done graduate work in tax and corporate law at New York University Graduate School of Law. Mr. Gallanter is president and chief executive officer of The Aspen Group, Inc. and has been responsible for the development of housing rehabilitation projects in the Cities of Newark, Paterson and Fort Lee, New Jersey, valued in excess of \$40,000,000. He is a consultant to various public and private groups.

Mr. Schneider, 45 years old, has been active in housing rehabilitation and construction for many years, beginning as an apprentice in a family business. From 1962 to 1972, he was with Morhite Construction Company, where he became vice president in charge of construction and was responsible for the rehabilitation of over 900 dwelling units in New York City and 800 in Baltimore, Maryland, involving aggregate construction expenditures of approximately \$28,000,000. In 1972, Mr. Schneider joined Mr. Gallanter in The Aspen Group, Inc. and became president of its subsidiaries, Dews Construction Corporation and Organized Construction Corporation (see information under the heading "The Contractor").

Shown below is information relating to the subsidized rehabilitation projects for which the design and construction work was done by the affiliated companies of The Aspen Group, Inc. and which are currently managed by one of those affiliates. Such information is provided as an inducement of the experience of the affiliated companies of The Aspen Group, Inc. in the design and construction of similar subsidized projects. No representation is herein made that such projects reflect the circumstances of the Aspen B Project and is not intended as an assurance or a representation that occupancy of the Aspen B Project will be at the levels shown for these projects.

<u>Name and Location of Project</u>	<u>No. of Units</u>	<u>Project Started</u>	<u>Subsidy</u>	<u>% Occupancy as of September 1, 1979</u>
Center City Housing Company 47-49 and 51-53 Pennsylvania Ave Newark, New Jersey	32	August 1972	Sections 236 and Section 8	97
Center City Housing Company 3 37 Brunswick Street 11-13 Thomas Street 12-14 and 17-19 Pennsylvania Ave Newark, New Jersey	65	November 1975	Sections 236 and Section 8	98
Center City Housing Company 9 40-44 and 56 West Kinney St. Newark, New Jersey	87	September 1974	Sections 236 and Section 8	93 (1)
Center City Housing Company 9A 18-26 West Kinney St Newark, New Jersey	61	May 1975	Sections 236 and Section 8	88
High City Housing Company 730-736 and 738-744 High St. Newark, New Jersey	112	November 1975	Sections 236 and Section 8	94 (2)
Center City Housing Company 9B 80 Court St. Newark, New Jersey	27	October 1976	Section 221(d)(4) and Section 8	96
Center City Housing Company 9C 1007 Broad St Newark, New Jersey	41	January 1977	Section 221(d)(4) and Section 8	95

Johnson Apartments Company A 23, 25 and 27 Johnson Ave. Newark, New Jersey	72	December 1976	Section 221(d)(4) and Section 8	92 (3)
Belmont Apartments Company A 393-395 and 416-422 Belmont Ave. Newark, New Jersey	63	May 1977	Section 221(d)(4) and Section 8	100
Pueblo City Housing Company 1A Astor St., Brunswick St., Murray St. Newark, New Jersey	80	July 1977	Section 221(d)(4) and Section 8	99
Madison Apartments Company 504 Madison Ave. Paterson, New Jersey	76	May 1977	Section 221(d)(4) and Section 8	92 (4)
Aspen-Stratford Apartments Company 2, 18, 22-30 Stratford Pl Newark, New Jersey	76	December 1977	Section 221(d)(4) and Section 8	96
Aspen-Belmont Apartments Company B 397-399 and 396-402 Belmont Ave. Newark, New Jersey	35	July 1978	Section 221(d)(4) and Section 8	97
Aspen-Temple Apartments Company 825-829 South 10th St. 860-868 South 11th St. Newark, New Jersey	87	December 1978	Section 221(d)(4) and Section 8	100 (5)

- (1) As of October 1, 1979, occupancy will be 100%, based on leases in hand
- (2) As of October 1, 1979, occupancy will be 98%, based on leases in hand.
- (3) As of October 1, 1979, occupancy will be 99%, based on leases in hand
- (4) As of September 15, 1979, occupancy will be 99% based on leases in hand
- (5) Aspen-Temple Apartments is under construction. The management agent for the Aspen-Temple Apartments reports that there is 100% occupancy as of September 15, 1979 for those 44 units which have been completed.

#### *The Aspen B Project*

**Description.** The Aspen B Project is located at 29 Stratford Place, Newark, New Jersey, on a 15,200 square foot site. The Aspen B Project will consist of the renovation and rehabilitation of an existing building. Upon completion of the Aspen B Project, the building will contain 60 dwelling units (of which 59 units will receive Section 8 subsidies) and approximately 65,928 square feet. The building will have a masonry exterior finish, steel structural system and wood floors. The building will have 5 floors, an elevator and a partial basement and will include a lobby and community room. The building will have a rear yard playground and sitting area. The distribution of apartments will be as follows: 6 one-bedroom and 54 two-bedroom units. A resident superintendent will occupy one of the two-bedroom units. One and two-bedroom units will each have one bath, while three-bedroom units will have 1½ baths. All units will be equipped with a range and refrigerator. Laundry facilities will be available on the premises. Heating and water (including hot water, will be included in the rent of all units, while electric utility and gas range bills will be the responsibility of the tenants.

**Location and Services.** The Aspen B Project is located in the Lower Clinton Hill section of Newark, approximately 2 miles from downtown Newark. The immediate area consists mainly of multi-family residences. In the immediate area there are a number of empty and closed buildings and there are a number of vacant lots not presently being put to any use. There are also several occupied government-funded low income projects located in the immediate neighborhood.

Newark Beth Israel Medical Center (527 beds) is located about two and one-half miles from the Aspen B Project. Newark Beth Israel Center is a specialized teaching hospital with advanced neonatal, intensive care and emergency services. Less than one and one-half miles away, Betsy Smith Health Center provides ambulatory and outpatient services.

Rutgers University, the New Jersey Institute of Technology and the Newark Public Library are all located in downtown Newark.

Many convenience shops are within one block of the Aspen B Project. Major department stores are located in downtown Newark and in several communities surrounding Newark. These stores can be reached by public bus and are generally within 2 miles of the Aspen B Project.

Four churches in the immediate area offer youth programs, swimming, bowling and a variety of recreational opportunities. The Aspen B Project is located about a mile from Weequahic Park, the second largest of the 22 parks comprising the territory under the control of the Essex County Park Commission. In addition to its 18-hole regulation golf course and rose garden, the park offers facilities for boating, fishing, ice skating, cross-country runs, picnicing, baseball, basketball and soccer.

Bus transportation is provided throughout Newark, with stops located on Clinton Avenue convenient to the Aspen B Project.

**Estimated Cost.** The total estimated replacement cost for the Aspen B Project as determined by HUD at the time of issuing its firm commitment to insure the related Mortgage Note is as follows:

Land Improvements .. .. .	\$ 23,339
Total Structures .. .. .	1,294,382
Total Fees and General Requirements .. .. .	187,026
Total Carrying Charges and Financing .. .. .	200,041
Legal, Organization and Audit Fees .. .. .	12,500
Builder and Sponsor Profit and Risk Allowance* .. .. .	171,729
Supplemental Management Fund .. .. .	5,900
Land Value .. .. .	78,000
Contingency Fund .. .. .	7,200
<b>Total Replacement Cost .. .. .</b>	<b><u>\$1,980,117</u></b>

\* This allowance (BSPRA) is an amount equal to 10% of all costs except land and a supplemental management fund and is allowed by HUD in determining the maximum amount of the insurable mortgage loan (which cannot exceed 90% of total replacement cost).



### *The Design Architect*

The design architect for the Aspen B Project is Old Aspen Corporation, 56 Park Place, Newark, New Jersey 07102 (the "Design Architect"). The Design Architect is a wholly owned subsidiary of The Aspen Group, Inc. The Design Architect has previously designed 20 subsidized housing projects in the State and currently has approximately \$15,000,000 in construction work under contract. All of these projects are rehabilitations. The Design Architect's staff includes a registered architect, three draftsmen and two clerical employees. The staff is experienced in the design, land selection, acquisition and financing requirements of housing developments.

The Design Architect is responsible for the design of the Aspen B Project and for the certification, as required by HUD, to the effect that, to the best of the Design Architect's knowledge, belief and professional judgment, construction of the Aspen B Project, in accordance with the plans and specifications therefor, is permissible under all applicable Federal, State and local codes, ordinances and regulations, and will comply with HUD's minimum property standards and other applicable HUD design requirements.

### *The Supervising Architect*

The supervising architect for the Aspen B Project is Fitzhugh L. Morris, 15 Concord Drive, Englishtown, New Jersey 07726 (the "Supervising Architect"). Mr. Morris has been a registered architect since 1954 and employs one non professional assistant. In association with the Design Architect and the Contractor, the Supervising Architect has supervised construction of 16 subsidized housing projects located in the City of Newark. At the present time, the Supervising Architect is supervising approximately \$3,700,000 in construction work. The Supervising Architect employs the firms of Blackburn Engineering, Princeton, New Jersey, and Robins Engineering, Little Silver, New Jersey, as engineering consultants. The Supervising Architect is responsible for overseeing construction in accordance with the plans and specifications of the Design Architect. Upon completion of the Somerset Homes Project, the Supervising Architect will deliver to HUD an opinion that the Aspen B Project has been satisfactorily completed in accordance with the terms of the HAP Agreement.

### *The Contractor*

Organized Construction Corporation, 56 Park Place, Newark, New Jersey 07102 and parties related to it by common ownership will be the contractor for the Aspen B Project. The principals of The Aspen Group, Inc., Sanford Gallanter and Elliot Schneider, are the owners of the stock of Organized Construction Corporation and also own a majority in interest of certain trade companies who provide construction services to the contractor. All related parties involved in construction operations currently have approximately 51 employees. The Aspen Group and its related construction companies, including the contractor, have constructed 15 subsidized housing projects containing 1,075 units and currently have approximately \$3,200,000 in construction projects under contract. All of the completed projects were rehabilitations, and these rehabilitation projects now have occupancy rates of from 88% to 100%.

The Aspen Group, Inc., by virtue of its interest in the Contractor and its affiliates and the Owner, may receive benefits from both the construction and the ownership of the Aspen B Project.

The Contractor has represented to the Owner that it has the construction capability and financial strength necessary to complete the Aspen B Project by the required completion date in accordance with the terms of a construction contract between the Owner and Organized Construction Corporation will be entered into prior to the closing of the mortgage loan, taking into account all other construction contracts for which it is currently responsible and those which it may undertake during the construction period. *The Contractor will provide performance and payment bonds or a Completion Assurance Agreement in a form and amount acceptable to HUD.*

### *The Management Agent*

The Owner has entered into a Management Agreement, dated February 13, 1979, with New City Management Company, 56 Park Place, Newark, New Jersey 07102, under the terms of which the latter is to be the Management Agent for the Aspen B Project. The Management Agent, formed in 1975, is a wholly owned subsidiary of The Aspen Group, Inc. The Management Agent currently manages 15 housing projects, with a total of 928 units, and employs 39 people.

The Management Agent, on behalf of the Owner, will annually prepare and submit to the Trustee a budget of costs and expenses on annual and monthly bases for the operation and maintenance of the Aspen B Project during each fiscal year.

The Aspen Group, Inc., by virtue of its interest in the Management Agent and the General Partner, may receive benefits from the management and operation of the Project.

The Management Agreement provides that the Management Agent will market, offer for rent and rent the units in the Aspen B Project. The Management Agent will also collect rents and other receipts from tenants and will be responsible for the enforcement of all leases. The Management Agent has also agreed to maintain the Aspen B Project in good repair and in a condition acceptable to the Owner and HUD. The Management Agreement may be cancelled at any time by the Owner, the Management Agent, the Trustee or HUD.

### *Marketing Plan*

The Owner expects to rely on the waiting lists maintained by the Management Agent with respect to the various low income housing projects which it manages and on word-of-mouth to provide potential tenants for the Aspen B Project. The Owner does not expect to advertise the Aspen B Project unless it shall prove necessary to do so.

### *Aspen-Stratford Apartments Company C, Project\**

The information hereinbefore provided under the headings "The Owner", "The Aspen Group, Inc.", "The Design Architect", "The Supervising Architect", "The Contractor", "The Management Agent" and "Marketing Plan" which appears under under the caption "The Aspen Stratford Apartments Company B, Project", each apply equally to the Aspen Stratford Apartments Company C, Ltd. Project (hereinafter in this subsection referred to as the "Aspen C Project") provided, however, for purposes of information concerning the Aspen C Project, any reference under such headings to the "Aspen-Stratford Apartments Company B Project", the "Aspen B Project" or to "Aspen-Stratford Apartments Company B" should be read as "Aspen-Stratford Apartments Company C Project", the "Aspen C Project" or "Aspen Stratford Apartments Company C", as the case may be.

### *The Aspen C Project*

**Description.** The Aspen C Project will be located at 19 Stratford Place on a 17,980 square foot site. The Aspen C Project will consist of the renovation and rehabilitation of an existing building. Upon completion of the Aspen C Project, the building will contain an aggregate of 55 dwelling units (of which 54 units will receive Section 8 subsidies) and approximately 67,786 square feet. The building will have a masonry exterior finish, steel structural system and wood floors. The building will have 5 floors, an elevator and a partial basement and will include a lobby and a community room. The building will have a rear yard playground and sitting area. The distribution of apartments will be as follows: 5 one-bedroom, 35 two-bedroom and 15 three-bedroom units. A resident superintendent will occupy one of the two-bedroom units. One and two-bedroom units will each have one bath, while three bedroom units will have

\* Information under this caption was provided by

1½ baths. All units will be equipped with a range and refrigerator. Laundry facilities will be available on the premises. Heating and water (including hot water) will be included in the rent of all units, while electric utility and gas range bills will be the responsibility of the tenants.

**Location and Services.** The Aspen C Project is located in the Lower Clinton Hill section of Newark, approximately 2 miles from downtown Newark. The immediate area consists mainly of multi-family residences. In the immediate area there are a number of empty and closed buildings and there are a number of vacant lots not presently being put to any use. There are also several occupied government-funded low income projects located in the immediate neighborhood.

Newark Beth Israel Medical Center (527 beds) is located about two and one-half miles from the Aspen C Project. Newark Beth Israel is a specialized teaching hospital with advanced neonatal, intensive care and emergency services. Less than one and one-half miles away, Betsy Smith Health Center provides ambulatory and outpatient services.

\* Information under this caption was provided by

Rutgers University, the New Jersey Institute of Technology and the Newark Public Library are all located in downtown Newark.

Many convenience shops are within one block of the Aspen C Project. Major department stores are located in downtown Newark and in several communities surrounding Newark. These stores can be reached by public bus and are generally within 2 miles of the Aspen C Project.

Four churches in the immediate area offer youth programs, swimming, bowling and a variety of recreational opportunities. The Aspen C Project is located less than a mile from Weequahic Park, the second largest of the 22 parks comprising the territory under the control of the Essex County Park Commission. In addition to its 18-hole regulation golf course and its rose garden, the park offers facilities for year-round activities such as boating, fishing, ice skating, cross-country runs, picnicing, baseball, basketball and soccer.

Bus transportation is provided throughout Newark, with stops located on Clinton Avenue convenient to the Aspen C Project.

**Estimated Cost.** The total estimated replacement cost for the Aspen C Project as determined by HUD at the time of issuing its firm commitment to insure the related Mortgage Note is as follows:

Land Improvements . . . . .	\$ 23,644
Total Structures . . . . .	1,246,576
Total Fees and General Requirements . . . . .	186,285
Total Carrying Charges and Financing . . . . .	196,750
Legal, Organization and Audit Fees . . . . .	12,500
Builder and Sponsor Profit and Risk Allowance* . . . . .	165,976
Supplemental Management Fund . . . . .	5,400
Land Value . . . . .	70,200
Contingency Fund . . . . .	37,601
<b>Total Replacement Cost . . . . .</b>	<b><u>\$1,938,932</u></b>

\*This allowance (BSPRA) is an amount equal to 10% of all costs except land and a supplemental management fund and is allowed by HUD in determining the maximum amount of the insurable mortgage loan (which cannot exceed 90% of total replacement cost).

## **Somerset Homes Associates Project**

### *The Owner*

The Owner of the Somerset Homes Associates Project (hereinafter in this subsection referred to as the "Somerset Homes Project"), Somerset Homes Associates, is a limited partnership and a limited dividend housing association organized and existing under the laws of the State. The Owner will be responsible for the development, construction and operation of the Somerset Homes Project, subject to HUD regulation, supervision and inspection. The Owner has, and will have, no other substantial assets and no other business activities other than the ownership and operation of the Somerset Homes Project.

The general partners of the Owner (the "General Partners") have offices at 1060 Broad Street, Newark, New Jersey 07102. The General Partners are six individuals whose experience in developing subsidized housing projects is outlined below. Stanley Sedransk of Wantagh, New York and Albert Feuerstein of Long Beach, New York each own a twenty-five (25%) percent interest in Somerset Homes Associates. Messrs. Sydney Engel and Arthur Engel of Hewlett, New York, Sol Henkind of New York, New York, and Lewis Henkind of Scarsdale, New York, each own a twelve and one-quarter (12.25%) percent interest in Somerset Homes Associates.

The General Partners plan to syndicate ownership of the Somerset Homes Project. The General Partners presently plan syndication to a group of limited partners, retaining control of the Owner in the General Partners with a 2% partnership interest. Although the foregoing method of syndication is presently contemplated, THE GENERAL PARTNERS ARE ACTIVELY CONSIDERING THE SALE OF THEIR INTEREST IN THE SOMERSET HOMES PROJECT ON OR PRIOR TO THE COMPLETION THEREOF AND NO STATEMENT CAN BE MADE AT THIS TIME CONCERNING A DESCRIPTION OF THE PARTY OR PARTIES WHO MAY PURCHASE SUCH INTEREST.

Sydney Engel is 56 years of age and has been engaged in the development and construction of real estate since 1946. He is president of Louis Engel & Co. of 181 South Franklin Blvd., Valley Stream, New York, a contracting firm formed in 1951 which has built state and federally subsidized developments in New York and New Jersey. Louis Engel & Co., Inc., has successfully completed over 5,000 dwelling units of both new and substantially rehabilitated buildings.

Arthur Engel is the brother of Sydney Engel, is 62 years of age and has been associated with Louis Engel & Co. since its formation. He has been active in the development and construction of housing projects since that time.

Stanley Sedransk is 61 years of age and has been engaged in the development and construction of real estate projects since 1954. Since 1966, Mr. Sedransk has been engaged as the developer or consultant in seven Federally subsidized developments. Mr. Sedransk is president of Sana Proposals, Ltd. of Wantagh, New York, a housing consulting firm. Mr. Sedransk, together with Messrs. Engel and Feuerstein, are presently developing 482 units of family and elderly housing in Jersey City and Atlantic City, New Jersey which are being financed by the New Jersey Housing Finance Agency. In addition, Messrs. Sedransk, Engel and Feuerstein successfully developed the 95-unit Sunrise Point East condominium complex in Long Beach, New York.

Albert J. Feuerstein is 40 years of age and is an attorney engaged in the private practice of law. Mr. Feuerstein was past president of the City Council of the City of Long Beach, New York.

Sol Henkind is 69 years of age and has been active in the real estate field since 1936. He has participated in the ownership and management of hotels in Connecticut, Georgia, Massachusetts and

New York. He has developed Section 8 housing projects in New York, New Jersey, Pennsylvania and Florida. Mr. Sol Henkind was a co-developer of the Essex Plaza project mentioned above.

Lewis Henkind is 35 years of age and is an attorney engaged in the private practice of law in New York City. The son of Sol Henkind, Mr. Lewis Henkind has participated in the development of government-assisted housing projects in New York, New Jersey, Pennsylvania and Florida.

Shown below is information relating to housing projects developed by one or more of the General Partners as indicated. Such information is provided as an indicia of the experience of the General Partners in the development of similar subsidized projects. No representation is herein made that such projects reflect the circumstances of the Somerset Homes Project and is not intended as an assurance or a representation that occupancy of the Somerset Homes Project will be at the levels shown for these projects.

<u>Participants</u>	<u>Name and Location of Project</u>	<u>No. of Units</u>	<u>Project Started</u>	<u>% of Subsidy</u>	<u>Occupancy</u>
Sol Henkind Lewis Henkind Sydney Engel Arthur Engel	Essex Plaza 1060 Broad St. Newark, N.J.	451	6/77	Section 8	100%
Sol Henkind Lewis Henkind Sydney Engel Arthur Engel	163rd Apts. 1018 163rd St. Bronx, N.Y.	97	6/78	Section 8	100%
Sydney Engel Stanley Sedransk Albert Feuerstein	Jones Hall Montgomery St. Jersey City, N.J.	110	10/78	Section 8	70% completion of const.
Sydney Engel Stanley Sedransk Albert Feuerstein	Brigantine Homes Brigantine Blvd. Atlantic City, N.J.	160	10/79	Section 8	—
Sydney Engel Stanley Sedransk Albert Feuerstein	Montgomery Gateway Montgomery St. Jersey City, N.J.	216	10/79	Section 8	—

The Owner, the General Partners and their affiliates, including particularly Essex Plaza Management, Inc. (see description under the heading "The Management Agent"), expect to profit from the development, ownership and operation of the Project in several ways. First, the General Partners, by virtue of their affiliation with the ownership of the Management Agent (as hereinbelow described), expect to receive substantial fees from the management of the Somerset Homes Project. Second, the Owner will receive those revenues, if any, not otherwise necessary for the payment of the principal of and interest on the Bonds and the payment of the operating and other expenses of the Somerset Homes Project in accordance with the Indenture, limited to eight (8%) percent annually. Third, the Owner is expected to receive substantial tax benefits from depreciation allowances on the Somerset Homes Project, to the extent they may be utilized, and will benefit from the eventual appreciation, if any, in the value of the Somerset Homes Project.

### ***Somerset Homes Project***

**Description.** The Somerset Homes Project will be located at the corner of Somerset Street and Clinton Avenue in Newark on a 2.85 acre site. The Somerset Homes Project will consist of the construction of 19 buildings containing 38 dwelling units and approximately 42,000 square feet. The buildings will each have two floors and be of wood frame construction with a brick veneer facade. The distribution of apartments will be as follows: 24 two-bedroom apartments, 8 three-bedroom units and 6 four-bedroom units. The two-bedroom apartments will have one bath, the three-bedroom apartments will have 1½ baths, and the four-bedroom units will have two baths. All units will be equipped with a range and refrigerator and laundry facilities will be available on the premises. Heating and water (including hot water) will be included in the rent of all units, while electric utility and gas range bills will be the responsibility of the tenants.

The Project will have a tot lot area and recreational facilities.

**Location and Services.** The Somerset Homes Project is located in the lower Clinton Hill section of Newark, approximately one mile from downtown Newark. The immediate area consists mainly of multi-family residences. In the immediate area there are a number of vacant lots not presently being put to any use. There are also several occupied government-funded low income projects located in the immediate neighborhood.

Newark Beth Israel Center (527 beds) is located about two and one-half miles from the Somerset Homes Project. Newark Beth Israel Center is a specialized teaching hospital with advanced neonatal, intensive care and emergency services. Martland Medical Center, a teaching hospital of Rutgers University, is located one and one-half miles from the Project.

Rutgers University, the New Jersey Institute of Technology and the Newark Public Library are all located in downtown Newark.

A supermarket, grocery store, drug store, barber, bakery, dry cleaner, hairdresser and other convenience shops are within walking distance of the Somerset Homes Project. Major department stores are located in downtown Newark and in several communities surrounding Newark. These stores can be reached by public bus and are generally within one mile of the Somerset Homes Project.

Churches in the immediate area offer youth programs, swimming, bowling and a variety of recreational opportunities. The Somerset Homes Project is located one mile from Weequahic Park, the second largest of the 22 parks comprising the territory under the control of the Essex County Park Commission. In addition to its 18-hole regulation golf course and its rose garden, the park offers facilities for boating, fishing, ice skating, cross-country runs, picnicing, baseball, basketball and soccer. Lincoln Park, a facility operated by the City of Newark, is less than one-half mile from the Somerset Homes Project.

Bus transportation is provided throughout Newark, with a stop located at the Somerset Homes Project.

**Estimated Cost.** The total estimated replacement cost for the Somerset Homes Project as determined by HUD at the time of issuing its firm commitment to insure the related Mortgage Note is as follows.

Total Structures .....	\$1,410,000
Total Fees and General Requirements .....	184,543
Total Carrying Charges and Financing .....	194,345
Legal, Organizational and Audit Fees .....	16,000
Builder and Sponsor Profit and Risk Allowance* .....	180,489
Supplemental Management Fund .....	4,500
Land Value .....	38,000
<b>Total Replacement Cost .....</b>	<b>\$2,027,877</b>

### *The Architect*

The architect for the Somerset Homes Project is Held and Rubin, 1900 Hempstead Terrace, East Meadow, New York (the "Architect"). The Architect's staff includes two registered architects, three draftsmen and two clerical employees. Each of the two principals of the Architect have over twenty-five years experience in designing and supervising the construction of apartment projects, office buildings, shopping centers, hotels and commercial buildings. The Architect has designed many governmental assisted housing projects including 321 units in Brooklyn, New York, 160 townhouses in Atlantic City, New Jersey and 100 apartments in East Hampton, New York. The staff is experienced in the design, land selection, acquisition and financing of housing developments.

The Architect is responsible for the plans and specifications for the Somerset Homes Project and for the certification as required by HUD, to the effect that, to the best of the Architect's knowledge, belief and professional judgment, construction of the Somerset Homes Project in accordance with the plans and specifications therefor is permissible under all applicable Federal, State and local codes, ordinances and regulations, and will comply with HUD's minimum property standards and other applicable HUD design requirements. In addition, the Architect is responsible for overseeing construction of the Somerset Homes Project in accordance with the plans and specifications. Upon completion of the Somerset Homes Project, the Architect will deliver to HUD an opinion that the Somerset Homes Project has been satisfactorily completed in accordance with the terms of the HAP Agreement.

### *The Contractor*

(To Come)

### *The Management Agent*

Essex Plaza Management Co., Inc. (the "Management Agent") has been designated as the managing agent for the Project. The Management Agent is located at 1060 Broad Street, Newark, New Jersey 07102, and is owned by General Partners Sol Henkin, Lewis Henkin and Sydney Enget and presently employs a staff of twenty. The principal office of the Management Agent is located approximately one-half mile from the Project. The Management Agent presently is managing or has contracts to manage 586 units of government-assisted housing located in Newark, Jersey City and New York City.

The Management Agent, on behalf of the Owner, will annually prepare and submit to the Trustee a budget of costs and expenses on annual and monthly bases for the operation and maintenance of the Project during each fiscal year.

- \* This allowance (BSPBA) is an amount equal to 10% of all costs except land and a supplemental management fund and is allowed by HUD in determining the maximum amount of the insurable mortgage loan (which cannot exceed 90% of total replacement costs).

General Partners Sol Henkind, Lewis Henkind and Sydney Engel, by virtue of their interest in the Management Agent, may receive benefits from the management and operation of the Project.

The Management Agreement provides that the Management Agent will market, offer for rent and rent the units in the Somerset Homes Project. The Management Agent will also collect rents and other receipts from tenants and will be responsible for the enforcement of all leases. The Management Agent has also agreed to maintain the Somerset Homes Project in good repair and in a condition acceptable to the Owner and HUD. The Management Agreement may be cancelled at any time by the Owner, the Management Agent, the Trustee or HUD.

#### *Marketing Plan*

The Owner expects to rely on the waiting lists maintained by the Management Agent with respect to the various low income housing projects which it manages and on word-of-mouth to provide potential tenants for the Somerset Homes Project. The Owner does not expect to advertise the Somerset Homes unless it shall prove necessary to do so.

#### **Livingston Homes Associates Project**

The information provided under headings "The Owner", "The General Partners", "The Architect", "The Contractor", "The Management Agent", and "Marketing Plan" which headings appear under the caption "Somerset Homes Associates Project" applies equally to the Livingston Homes Associates Project (hereinafter in this subsection called the "Livingston Homes Project") provided, however, for purposes of information concerning the Livingston Homes Project, any reference under such headings to the "Somerset Homes Project" or to "Somerset Homes Associates", should be read as "Livingston Homes Project" or "Livingston Homes Associates", as the case may be.

**Description** The Livingston Homes Project will be located at the corner of Livingston Street and Irvine Turner Boulevard in Newark on a 240,509 square foot site. The Livingston Homes Project will consist of the construction of 41 buildings containing 82 dwelling units and approximately 88,644 square feet. The buildings will each have two floors and be of wood frame construction with a brick veneer facade. The distribution of apartments will be as follows: 60 two-bedroom units, 12 three-bedroom units and 10 four-bedroom units. The two-bedroom units will have one bath, the three-bedroom units will have one and one-half baths, and the four-bedroom units will have two baths. All units will be equipped with a range and refrigerator, and laundry facilities will be available on the premises. Heating and water (including hot water) will be included in the rent of all units, while electric utility and range gas bills will be the responsibility of the tenants.

The Project will have a tot lot area and recreational facilities.

**Location and Services.** The Livingston Homes Project is located in the Central section of Newark, approximately one mile from downtown Newark. The immediate area consists mainly of multi-family residences. In the immediate area there are a number of vacant lots not presently being put to any use. There are also several occupied government-funded low income projects located in the immediate neighborhood.

Newark Beth Israel Center (527 beds) is located about two and one-half miles from the Livingston Homes Project. Newark Beth Israel Center is a specialized teaching hospital with advanced neonatal, intensive care, and emergency services. Martland Medical Center, a teaching hospital of Rutgers University, is located about one mile from the site.



Rutgers University, the New Jersey Institute of Technology and the Newark Public Library are all located in downtown Newark

A supermarket, grocery stores, a drug store, barber, bakery, dry cleaner, hairdresser and other convenience shops are within walking distance from the Livingston Homes Project. Major department stores are located in downtown Newark and in several communities surrounding Newark. These stores can be reached by public bus and are generally within one mile of the Livingston Homes Project.

Churches in the immediate area offer youth programs, swimming, bowling and a variety of recreational opportunities. The Livingston Homes Project is located about one and one-half miles from Weequahic Park, the second largest of the 22 parks comprising the territory under the control of the Essex County Park Commission. In addition to its 18-hole regulation golf course and its rose garden, the park offers facilities for boating, fishing, ice skating, cross-country runs, picnicing, baseball, basketball, and soccer.

Bus transportation is provided throughout Newark with a stop located at the Livingston Homes Project.

**Estimated Cost.** The total estimated replacement cost for the Project as determined by HUD at the time of issuing its firm commitment to insure the Mortgage Note is as follows:

Total Structures .....	\$2,870,000
Total Fees and General Requirements .....	375,453
Total Carry Charges and Financing .. .	403,138
Legal, Organization and Audit Fees .....	29,000
Builder and Sponsor Profit and Risk Allowance* .. .	367,759
Land Value .....	82,000
Total Replacement Cost .....	\$4,127,350

#### SUMMARY OF CONSTRUCTION LOAN AGREEMENT

The Construction Loan Agreement contains various covenants and security provisions, certain of which are summarized below. Such document should be read in its entirety for a complete understanding of all covenants and security provisions contained therein.

The following statements are brief summaries of certain definitions and provisions of the Construction Loan Agreement (hereinafter in this section referred to as the "Loan Agreement"):

##### Definitions

##### Lien and Pledge of Loan Agreement

"Act" means Section 8 of the United States Housing Act of 1937, as amended, and the regulations promulgated thereunder.

"Authority" means the Housing Authority of the City of Newark, New Jersey, a public body, corporate and politic, organized and existing under the Local Housing Authorities Law, constituting Chapter 19 of the Laws of New Jersey of 1938, as amended.

\* This allowance (BSPRA) is an amount equal to 10% of all costs except land and supplemental management fund and is allowed by HUD in determining the maximum amount of the insurable loan (which cannot exceed 90% of total replacement cost).

"Bond" or "Bonds" means the Mortgage Revenue Bonds (1979 Section 8 Assisted FHA Insured Projects) of the Corporation.

"Bond Trustee" means Fidelity Union Trust Company, as trustee for the holders of the Bonds.

"Building Loan Agreement" or "Building Loan Agreements", in connection with each Project, means the building loan agreements by and between the Corporation, as mortgagee, and each Owner with respect to the Owner's Project, pursuant to which the Corporation will lend to the Owners, from the proceeds of the sale of the Notes, funds for the acquisition, construction and/or rehabilitation of the Projects.

"Certified Resolution" means, in the case of the Corporation or the Authority, a copy of one or more resolutions certified by the Secretary, Secretary-Treasurer or an assistant secretary of the Corporation or the Authority, as the case may be, under its seal to have been duly adopted by the Board of Trustees of the Corporation or by the Board of Commissioners of the Authority, as the case may be, and to be in effect on the date of such certification.

"Construction Account", in connection with each Project, means the account within the Construction Fund so designated

"Construction Fund" means the fund established for the deposit of the Note proceeds

"Corporation" means the Housing Finance Corporation of the City of Newark, a nonprofit corporation organized and existing under the laws of the State of New Jersey

"Cost" or "Costs", in connection with the Projects (or repairs or replacements thereof), means all expenses which are properly chargeable thereto under generally accepted accounting principles or which are incidental to the financing and construction of any or all of the Projects

"HAP Agreement" or "HAP Agreements", in connection with each Project, means one or more of the Agreements to Enter Into Housing Assistance Payments Contract between HUD and each Owner.

"HAP Contract" or "HAP Contracts", in connection with each Project, means one or more of the Housing Assistance Payments Contracts between HUD and each Owner pursuant to which HUD agrees to provide subsidies to each Owner in connection with the Project.

"Interest Account", in connection with each Project, means the account within the Construction Fund so designated

"Itemized Statement of Costs" means an itemization of Costs set forth, to the extent practicable, in accordance with the categories specified therefor in the Loan Agreement and consistent with HUD requirements.

"Mortgage" or "Mortgages", in connection with each Project, means one or more of the mortgages from each Owner to the Corporation securing each Owner's Note

"Mortgage Insurance Contract" or "Mortgage Insurance Contracts", in connection with each Project, means one or more contracts of mortgage insurance between FHA and the Corporation, as mortgagee, relating to each Project.

"Note" or "Notes" means the Housing Finance Corporation of the City of Newark Construction Notes (1979 Section 8 Assisted FHA Insured Projects) of the Corporation.

"Note Trustee" means Fidelity Union Trust Company and its successors in trust under the Loan Agreement.

"Outstanding", in connection with the Notes, means, as of the time in question, all Notes authenticated and delivered under the Loan Agreement, except Notes theretofore cancelled or required to be cancelled thereunder and Notes in substitution for which other Notes have been authenticated and delivered pursuant thereto

"Owner" or "Owners" means one or more of Aspen-Stratford Apartments Co. B, Ltd., Aspen-Stratford Apartments Co. C, Ltd., Somerset Homes Associates and Livingston Homes Associates, New Jersey limited dividend housing associations.

"Owner's Note" or "Owners' Notes", in connection with each Project, means one or more of the notes given by each Owner to the Corporation evidencing the Corporation's loan to the Owner in the principal amount of such note.

"Permitted Exceptions" means (i) liens described in the mortgagee's title policy acceptable to the Note Trustee, (ii) utility, access and other easements and rights of way, restrictions and exceptions that do not, individually or in the aggregate, materially impair the utility or value of the property affected thereby for the purposes for which it is intended and (iii) liens for taxes at the time not delinquent

"Plans and Specifications" means the plans and specifications, approved by the Corporation and the Note Trustee, in accordance with which each Owner will construct and/or rehabilitate the dwelling units comprising its Project

"Pledged Revenues" means (i) all amounts payable to the Corporation pursuant to any or all Owners' Notes, the Mortgages and FHA insurance proceeds, and any rents, revenues, receipts, income and other monies received from the operation and leasing of any or all of the Projects after the renting of any dwelling unit in the Projects, (ii) all proceeds of casualty or liability insurance and condemnation awards with respect to any or all of the Projects, and (iii) all monies and investments held from time to time in each fund and account established under the Loan Agreement and all investment income thereon.

"Project" or "Projects" means one or more of the Section 8 assisted housing developments for persons and families of low income, including the land, buildings, equipment and other facilities incidental thereto, consisting of 60 units to be located at (the "Aspen-Stratford Apartments Co. B, Ltd. Project"), 55 units to be located at (the "Aspen-Stratford Apartments Co. C, Ltd. Project"), 38 units to be located at (the "Somerset Homes Associates Project") and 82 units to be located at (the "Livingston Homes Associates Project") Associates, Ltd. Project") all in the City of Newark, New Jersey.

"Regulatory Agreement" or "Regulatory Agreements" in connection with each Project, means the one or more of the regulatory agreements between each of the Owners and HUD relating to the operation and maintenance of the Projects in accordance with HUD regulations for FHA insured projects.

"Supervising Architect" means an architect or engineer (or architectural or engineering firm) qualified to pass upon public housing architectural and engineering questions in New Jersey, who has been appointed by each Owner as to its Project and is satisfactory to the Corporation, the Authority, the Bond Trustee and the Note Trustee.

### *Lien and Pledge of Loan Agreement*

The Loan Agreement conveys to the Note Trustee all of the Corporation's right, title and interest in and to (i) the Owner's Notes (ii) the Mortgages (iii) a conditional assignment of the Housing Assistance Payments, all leases of dwelling units in the Projects and all rights and claims payable to the Owners from any source in connection with the operation and maintenance of the Projects and (iv) any monies available in the Construction Fund, to the extent such monies are not applied to the costs of construction and rehabilitation of the Projects

The Loan Agreement also constitutes a security agreement under the New Jersey Uniform Commercial Code to secure payment of all sums due under the Loan Agreement.

### *Conditions Precedent to Issuance of Notes*

The Notes shall be executed by the Corporation in the form and manner set forth in the Loan Agreement and delivered to the Note Trustee and thereupon shall be authenticated by the Note Trustee as provided therein. Upon receipt by the Note Trustee of the proceeds of the sale of the Notes, the Notes shall be delivered by the Note Trustee to or upon the order of the purchaser or purchasers thereof, but only if theretofore or simultaneously therewith there shall have been filed with or delivered to the Note Trustee:

(a) A copy of the resolution duly certified by the Secretary or the Assistant Secretary of the Corporation authorizing the Notes and Bonds,

(b) A copy of the resolution adopted by the Authority authorizing the transactions of the Corporation referred to in the Loan Agreement and related documents, including the issuance, sale and delivery of the Notes and such other matters as required by the Act, duly certified by the Secretary or Assistant Secretary of the Authority;

(c) An original executed counterpart of the Loan Agreement, the Indenture, an originally executed counterpart or certified copy of the Owner's Note for each project initially endorsed by FHA, each Mortgage, duly executed counterparts or certified copies of each Regulatory Agreement, Building Loan Agreement, Mortgage Insurance Contract and other documents executed in connection with FHA insurance and each HAP Agreement with the copy of the HAP Contract form attached,

(d) A written opinion of Kraft & Hughes to the effect that (i) the Corporation has been duly designated an instrumentality of the Authority for purposes of the Act, (ii) the issuance of the Notes and the execution thereof have been duly authorized, (iii) the Notes have been duly executed and delivered and constitute the legal, valid and binding obligations of the Corporation, and are enforceable in accordance with their terms, (iv) interest paid on the Notes is exempt from Federal income taxation and (v) the Notes are entitled to the lien and security of the Loan Agreement,

(e) The written order to the Note Trustee by the Corporation to authenticate and deliver the Notes to the purchaser or purchasers therein identified and stating the amount of accrued interest, if any, to be deposited in the various Funds established thereunder,

(f) The amount of accrued interest, if any, to be deposited in the Interest Account in the Construction Fund,

(g) The amount of Note proceeds to be deposited into the Construction Fund,

(h) - Written notification from HUD providing that interest on the Notes is exempt from Federal income taxation now or hereafter imposed by the United States of America,

(i) Mortgagee's title insurance policies for each Project in amounts at least equal to the original principal amount of the respective Owner's Note, listing as insureds the Corporation, the respective Owner and the Trustee, as their respective interests may appear, and insuring title to such Project, subject only to Permitted Exceptions,

(j) An opinion of counsel to the Corporation to the effect that the Indenture, the Loan Agreement and other financing documents have been duly authorized, executed and delivered, are in full force and effect, and are valid, legal and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms;

(k) An opinion of counsel to each Owner to the effect that the Owner's Note, the Mortgage, the Regulatory Agreement, the Building Loan Agreement and other financing documents to which it is a party have been duly authorized, executed and delivered, are in full force and effect, and are valid, legal and binding obligations of the respective Owner enforceable against such Owner in accordance with their respective terms;

#### *Disposition of Note Proceeds*

Upon the issuance and delivery of the Notes, including any additional Notes issued pursuant to the Loan Agreement, the Corporation shall forthwith transfer the proceeds to the Note Trustee, and the Note Trustee shall deposit the proceeds of the Notes in the following funds

(1) To the Interest Account in the Construction Fund, accrued interest, if any, on the Notes from the date of the Notes to the date of delivery thereof, and

(2) To the Construction Fund, the balance of the proceeds of the Notes.

Upon receipt from any Owner of its respective Owner's Note, initially endorsed by FHA, the Note Trustee shall withdraw the principal amount of such Owner's Note from the Construction Fund and deposit such amount in an account to be created on behalf of such Owner in the Construction Fund. Separate accounts shall be maintained for each Owner and each account shall be entitled "[Name of Project] Construction Account." Disbursements from each Construction Account, as more particularly provided in the Loan Agreement, shall be made only for and on behalf of its respective Project, except, however, that the initial disbursement from each Construction Account (and subsequent disbursements if the Corporation shall so determine) shall be made toward the particular Project's *pro rata* share (as determined by the particular Owner's Note percentage of the originally issued Notes) of:

(a) Costs of issuance of the Notes and Bonds;

(b) Administrative and management expenses of the Corporation and Authority to the date of the particular Owner's Note;

(c) Fees and expenses of the Note Trustee and Bond Trustee;

(d) Interest on the Notes;

(e) Printing of the Notes and Bonds,

(f) Legal fees of the attorneys for the Corporation, the Authority, the Note Trustee and the Bond Trustee, and

(g) Underwriting and related expenses in connection with the sale of the Notes and Bonds.

Costs of the nature provided above relative to the issuance of additional Notes and Bonds shall be borne by the Owner or Owners to the extent such additional Notes and Bonds were issued to finance completion of its Project or their Projects on a *pro rata* basis

#### *Construction of Projects*

Each of the Owners agree to enforce their respective construction contracts, and to complete and to cause the general contractor to complete the construction of its Project within the time provided in the respective HAP Agreement, all in accordance with the Plans and Specifications, and further, to perform such construction in compliance with all terms, conditions and requirements of the respective HAP Agreement, which terms, conditions and requirements are incorporated in the Loan Agreement by reference. Each of the Owners may exercise their right to issue or to permit minor change orders under their respective construction contracts, provided, however, that (i) the change conforms to all government requirements and provided that no change which would materially reduce or alter the obligations of such Owner, or which would alter the design or materially reduce the quality or amenities of its Project shall be made without the prior approval of HUD, and (ii) no major changes shall be made unless approved by the Note Trustee and unless there shall have previously been filed with the Note Trustee and the Bond Trustee a Supervising Architect's certificate stating that the change is approved by the signer, and that the approval of all governmental and administrative bodies having jurisdiction, and whose approval is required in connection therewith, has been obtained. Upon the approval of such Owner and the Supervising Architect of any change order increasing the cost of completing the construction of such Project beyond the amount remaining in its Construction Account for payment of construction costs (including the contingency provision), the general partners of such Owner shall deposit an amount equal to such excess into its Construction Account, in cash, or an unconditional irrevocable letter of credit in form and substance reasonably satisfactory to the Note Trustee, or any combination thereof. Such Owner shall file a copy of all change orders with the Note Trustee and the Bond Trustee. Upon the occurrence of an Event of Default under the Loan Agreement, the Note Trustee may and, upon the direction of the holders of 66 2/3% of the Outstanding principal amount of the Notes shall, pay over to the holders of the Notes all moneys in such Construction Account, which shall be applied to the payment of all unpaid principal and accrued interest on the Notes.

If at the time the Itemized Statement of Costs of any Project is filed with the Note Trustee any item of such costs is an estimate, such Owner shall not incur aggregate commitments for such item in excess of such estimate unless it shall have previously filed with the Note Trustee a Supervising Architect's certificate that the excess can be paid out of its Construction Account without jeopardizing completion of the Project (including the scheduled date for completion). The Owner or the Corporation may make, or cause to be made, additional deposits in the Construction Account in order to enable the Supervising Architect to give such certificate.

#### *Payments from Construction Accounts and Construction Fund*

The Note Trustee shall make payments from the appropriate Construction Account to pay costs in connection with any Project upon the prior receipt of:

(a) A requisition in the form provided by HUD for FHA insured projects (FHA Form No. 2403) signed by the Owner or such officer of the Owner designated for such purpose by the Owner

(which shall be filed with the Note Trustee), and unless the requisition relates to construction items and is accompanied by a certificate of the Supervising Architect, as provided in (b) below, approved by such officer of the Corporation as may be designated by a Certified Resolution of the Corporation (which shall be filed with the Note Trustee) Such requisition shall identify the Project and shall state: (i) the name and address of the person to whom the payment is to be made (who may be the Corporation or the Owner if either is to be reimbursed for advances made by it and properly chargeable against the Construction Account or the Corporation, (ii) the amount to be paid; (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (iv) that the obligation was properly incurred and is a proper charge against the Construction Account, (v) that the amount requisitioned is due and unpaid, and (vi) that with respect to items covered in the requisition, the signer has no knowledge of any vendors', mechanics', or other liens, conditional sales contracts, chattel mortgages, leases of personality, title retention agreements or security interests which should be satisfied or discharged before the payments as requisitioned therein are made or which will not be discharged by such payment, and

(b) Evidence satisfactory to the Note Trustee that such disbursement has been approved and will be insured by FHA, together with documents evidencing compliance with the appropriate Building Loan Agreement

#### *Monies Held in Construction Fund*

If, on the earlier of (a) , 1981 or (b) the expiration date of the time fixed in the HAP Agreement for completion of a particular Project, as extended by HUD, the Owners' Note in connection with such Project has not been delivered to the Note Trustee and the related Construction Account not funded, the amount initially deposited in the Construction Fund for such Project shall be used by the Note Trustee to redeem Outstanding Notes at par plus accrued interest from the date fixed for such redemption

#### *Application of Proceeds of Insurance*

In the event of damage to any Project, the Owner shall immediately notify the Corporation and the Note Trustee. If the fire and extended coverage insurance proceeds exceed \$5,000, the Owner shall submit an estimate of costs of repairing or replacing the damaged property, and, unless the Owner, the Note Trustee and the Corporation agree in writing that the same shall not be required therefor, plans and specifications for the repair or replacement, prepared by the Supervising Architect or such other architect acceptable to HUD and the Note Trustee, shall be filed with the Note Trustee

The proceeds of any builder's risk insurance (or equivalent coverage) required to be maintained under the Loan Agreement and the proceeds of any fire, boiler and extended coverage insurance required to be maintained thereunder, less the costs and expenses, if any, of collecting the same, shall, to the extent necessary, be deposited in the Project's Construction Account and applied to repair and replace the damaged property, provided, however, that if the Corporation, the Authority, the Owner and the Note Trustee agree in writing that such repair or replacement is not economically feasible, such proceeds shall be retained by the Note Trustee for deposit in the respective Construction Account or the Construction Fund generally and applied to the payment of the principal of the Notes at maturity

Except in cases where the Corporation, the Authority, the Owner and the Note Trustee agree not to make repairs or replacements, the Owner shall commence and diligently prosecute the repair or replacement of the damaged property according to the plans and specifications prepared (if any).

In the event of any loss or liability or damages for personal injury or death or property damage covered by the public liability and property damage insurance required to be maintained pursuant to Loan Agreement, the proceeds of such insurance shall be paid in respect of such loss or liability

#### *Application of Proceeds of Condemnation*

In the event that any part of any Project shall be acquired by a third party in the exercise of the latter's power of eminent domain, the proceeds of the condemnation, less any costs or expenses incurred by the Owner or the Corporation in respect of such condemnation, shall be paid over to the Note Trustee and deposited in the respective Construction Account or the Construction Fund generally and applied to the payment of the principal of and interest on the Notes at maturity, provided, however, that any such proceeds received by the Note Trustee for a taking of less than substantially all or of any Project shall be applied by the Note Trustee as follows.

(a) If no dwelling unit of such Project is taken or damaged and if the Corporation, the Owner, the Authority and the Note Trustee agree in writing that the efficient utilization of such Project will not be impaired by the taking, the net condemnation award shall be paid to the respective Construction Account or the Construction Fund generally and applied towards payment of the Notes at maturity as aforesaid, and

(b) If any dwelling unit of such Project is taken or if no such agreement is reached, then the net condemnation award shall be deposited in the Project's Construction Account and applied to the repair, rebuilding and restoration of such Project or to the rearrangement of the Project, insofar as may be possible, so as to make all dwelling units suitable for leasing to Eligible Tenants, and any balance of the award shall be paid into the respective Construction Account or the Construction Fund generally for mandatory redemption of the Notes as aforesaid, of, if such repair, rebuilding, restoration or rearrangement is not possible so as to make all dwelling units suitable for leasing to Eligible Tenants, all of the net condemnation award shall be paid into the respective Construction Account or the Construction Fund generally and applied to retire the Notes at maturity

#### *Events of Default*

Each of the following is an "Event of Default" under the Loan Agreement

(a) If payment of the principal of or interest on the Notes or, as to any Owner, the Owner's Note is not made when due, or

(b) If the Corporation or, as to any Owner, the Owner for any reason is rendered incapable of fulfilling or fails to perform its obligations under the Loan Agreement; or

(c) As to any Owner, if an order or decree is entered appointing a receiver of its Project or any part thereof or of the revenues thereof with the consent or acquiescence of the Corporation or such Owner, or if such an order or decree, having been entered without the acquiescence or consent of the Corporation or the Owner, is not vacated or discharged or stayed on appeal within sixty (60) days after entry; or

(d) As to any Owner, if such Owner defaults in the due and punctual performance of any other covenant in its Owner's Note or Mortgage, if the Corporation or the Owner defaults in the due and punctual performance of any other covenant in the Loan Agreement or if the Corporation defaults in the due and punctual performance of any other covenant in the Notes, and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Corporation and the Owner by the Note Trustee, or, if diligent effort is being made to cure such



default, for such longer period as may be required to cure such default with reasonable dispatch (but within the time allowed for completion of the related Project in the HAP Agreement), which notice may be given by the Note Trustee in its discretion and shall be given at the written request of the holders of 25% of the principal amount of the Notes outstanding, or

(e) If the Corporation or, as to any Owner, such Owner proposes or makes an assignment for the benefit of creditors or a composition agreement with all or a material part of its or their creditors, or a trustee, receiver, executor, conservator, liquidator, sequestrator or other judicial representative, similar or dissimilar, is appointed for the Corporation or such Owner or any of its assets or revenues, or there is commenced any proceeding in liquidation, bankruptcy, reorganization, arrangement of debts, debtor rehabilitation, creditor adjustment or insolvency, local, state or Federal, by or against the Corporation or the Owner and if such is not vacated, dismissed or stayed on appeal within sixty (60) days

### *Remedies*

If any Event of Default occurs and is continuing under any Owner's Note or Mortgage, the Note Trustee, before or after declaring that amount of principal of the Notes immediately due and payable, may enforce each and every right granted to the Corporation under such Owner's Note and Mortgage, including any remedy relative to the Mortgage Insurance Contract with respect to such Project, in which case all security and other sums available shall be assigned or otherwise delivered to HUD

If any Event of Default with respect to any Owner occurs and is continuing, the Note Trustee may proceed and, upon the direction of the holders of 25% of the principal amount of the Outstanding Notes shall, proceed to do any one or more of the following

(a) Use any balance in the related Construction Account for the purpose of completing the construction of the Project.

(b) Employ such contractors, subcontractors, agents, architects and inspectors as shall be required, and settle or compromise all existing bills and claims, which may be or may become liens against the Project, or as may be necessary or desirable for the completion of the Project or for the clearance of title,

(c) Execute all applications and certificates in the name of such Owner and to do any and every act which the Owner might do in its own behalf; and

(d) Have access to and inspect, examine and make copies of the books and records of such Owner with respect to the Project

### *Amendments and Supplements*

The Loan Agreement may be amended or supplemented at any time and from time to time, without the consent of the Noteholders, by a supplemental agreement authorized by a Certified Resolution of the Corporation and the Owners, filed with the Note Trustee, for one or more of the following purposes:

(a) To add additional covenants of the Corporation or any Owner or to surrender any right or power herein conferred upon the Corporation or any Owner;

(b) To cure any ambiguity or to cure, correct or supplement any defective provision of the Loan Agreement in such manner as shall not be inconsistent with the Loan Agreement and shall not impair the security hereof or adversely affect the Noteholders, and

(c) .To provide for the issuance of additional Notes

This Loan Agreement may be amended from time to time, except with respect to (i) the interest payable on the Notes, (ii) the dates of maturity or redemption provisions of the Notes, and (iii) the provisions of the Loan Agreement relating to the amendment and supplementation thereof, by a supplemental agreement or amendment approved by the holders of 66 2/3% of the principal amount of the Outstanding Notes, provided, that no amendment shall be made which adversely affects the Notes without the consent of the holders of the Notes so affected.

*Defeasance*

When the principal of and interest on the Notes, or a portion thereof equal to the amount of a particular Owner's Note executed in connection with any one of the Projects being financed with the Notes issued hereunder, shall have been paid, or proper provision has been made for payment of the same at or prior to maturity, together with all other sums payable thereunder by the Corporation, the right, title and interest of the Note Trustee in such Owners' Note, Notes and Mortgage or Mortgages, as appropriate, and in the Pledged Revenues shall thereupon cease to that extent and the Note Trustee, on demand of the Corporation, shall release the Pledged Revenues and such Owners' Note or Notes and Mortgage or Mortgages from the security interest created by this Loan Agreement and shall execute such documents to evidence such release as may be reasonably required by the Corporation, the Owners or the Bond Trustee.

Provisions for the payment of the Notes or any portion thereof, as noted above, shall be deemed made if there shall have been deposited with or shall be held by the Note Trustee either monies in an amount which shall be sufficient, or direct or guaranteed obligations of the United States of America the principal of and interest on which when due will provide amounts which (together with such monies if any on hand) will be sufficient to pay when due the principal of and interest due or to become due on such Notes, then such Notes shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph provided, however, that if any such Notes are to be redeemed prior to the maturity thereof, the Corporation shall have taken all action necessary to redeem such Notes, including provision for the payment of the particular Note or Notes and Mortgage or Mortgages, if appropriate, and notice of such redemption shall have been made, and provided, further, that if the maturity or redemption date of any such Notes shall not then have arrived, provision shall have been made by the Corporation, satisfactory to the Note Trustee, for notice to be sent to all registered holders of all Outstanding Notes as provided in the Loan Agreement or, if the registered holders are not known, then by publication, at least twice, at an interval of not less than seven days between publications, in a financial journal circulating daily in New York City, of a notice to the holders of such Notes that the deposit hereinabove described has been made with the Note Trustee and that such Notes are deemed to have been paid in accordance with the Loan Agreement and stating the maturity or redemption date or dates upon which moneys are to be available for the payment of the principal of such Notes. Any monies held by the Note Trustee pursuant hereto may be invested in direct or guaranteed obligations of the United States of America maturing in such amounts and not later than at such times as may be necessary to provide funds when needed to make payments hereunder.

In the event any Notes shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof, or otherwise, if funds sufficient to pay such Notes and interest shall have been made available to the Note Trustee for the benefit of the holder or holders thereof, all liability of the Corporation to the holders thereof for the payment of such Notes or interest thereon shall therewith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Note Trustee to hold such funds without liability for interest thereon, for the benefit of the holders of such Notes, who shall, after the due date of such Notes, be restricted exclusively to such funds for all claim of whatever nature on their part under the Loan Agreement or with respect to said Notes.

made by the Corporation satisfactory to the Note Trustee, for notice to be sent to all registered holders of all Outstanding Bonds as provided herein or if the registered holders are not known then by publication, at least twice, at an interval of not less than seven days between publications, in a newspaper published and circulating daily in New York City and generally carrying financial news, of a notice to the Holders of such Notes with the Note Trustee and that such Notes are deemed to have been paid in accordance with this Section 13.01 and stating the maturity or redemption date or dates upon which moneys are to be available for the payment of the Principal or Redemption Price, if applicable, of such Notes. Any moneys held by the Note Trustee pursuant to this Section may be invested in direct or guaranteed obligations of the United States of America maturing in such amounts and not later than such times as may be necessary to provide funds when needed to make payments hereunder.

(C) In the event any Notes shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, if funds sufficient to pay such Notes and interest shall have been made available to the Note Trustee for the benefit of the Holder or Holders thereof, all liability of the Corporation to the Holder thereof for the payment of such Notes or interest thereon, shall therewith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Note Trustee to hold such fund without liability for interest thereon, for the benefit of the Holder of such Notes, who shall, after the due date of such Notes, be restricted exclusively to such fund, for all claim of whatever nature on his part under this Loan Agreement or with respect to said Notes.

#### FHA MORTGAGE INSURANCE

FHA has issued a firm commitment to insure each of the Mortgage Notes under Section 221(d)(4) of the National Housing Act. Pursuant to the National Housing Act, it is anticipated that FHA will initially endorse each Mortgage Note for insurance concurrently with the delivery of the Bonds ("initial endorsement"). FHA will provide mortgage insurance not in excess of 90% of the estimated value of a multi-family housing project, determined on the basis of a HUD appraisal of the project site and improvements. Upon the completion of a Project, and subsequent to all construction advances of mortgage monies relating thereto and upon compliance with the terms and conditions of the firm commitment to insure the related Mortgage Note, FHA will finally endorse such Mortgage Note for insurance ("final endorsement"). On final endorsement, the mortgage insurance of each Project will be coterminous with the Mortgage Note relating thereto. The term of each Mortgage Note commences upon the amortization thereof. Subject to a right of prepayment, the Mortgage Notes each have a term of 40 years, which terms are respectively scheduled to commence as follows.

## **Processing FHA Mortgage Insurance**

Under the FHA mortgage insurance program, the owner or sponsor of a proposed project normally submits an application for site appraisal and market analysis with respect to the project ("SAMA"). The issuance of a SAMA letter by FHA normally includes a determination thereby of the initial acceptance of the project site and a recognition of a specific market need for the project. Upon receipt of the SAMA letter, the owner or sponsor of the project submits an application for the issuance of a conditional commitment for mortgage insurance, together with preliminary working drawings for the project. The issuance by FHA of a conditional commitment for mortgage insurance normally indicates the completion of technical processing, including, in part, a review of the estimated development costs of the project, the "as is" value of the project site, estimates of operating expenses and taxes, financial and credit capacity information of the sponsor or owner, and the proposed amount of the mortgage. Upon receipt of the conditional commitment, the owner or sponsor submits an application for a firm commitment for insurance, which application includes, in part, final working drawings and specifications from the architect, the contractor's payment breakdown (consisting of a schedule of costs of material and labor and other documents), a management agreement and property survey.

The issuance of the firm commitment for insurance evidences the approval by FHA of the application by the owner or sponsor for mortgage insurance and establishes the terms and conditions upon which the mortgage will be insured. Under the FHA mortgage insurance program, the firm commitment may provide for the advances of mortgage monies during construction and rehabilitation (as in the case of the Projects to be financed with the proceeds of the Construction Notes) and/or insurance upon the completion of the construction and rehabilitation of a project.

### **Initial Closing and Construction**

Subsequent to the receipt of the firm commitment for insurance, the owner of the project proceeds to an initial closing of the mortgage loan, executing a mortgage note evidencing the loan and a mortgage securing the mortgage note, each in the form approved by FHA for mortgage insurance under the National Housing Act. Concurrently with the execution of the mortgage note, FHA initially endorses the mortgage note for insurance and mortgage monies are thereupon advanced to provide for the payment of the initial costs of the project, including land acquisition and financing fees.

Construction and rehabilitation of the project is required to proceed in accordance with the terms set forth in a building loan agreement between the owner and FHA in the form approved by FHA for mortgage insurance under the National Housing Act. (See "Summary of Mortgage Loan Documents" herein.) During the construction period FHA, by licensed architects, undertakes frequent inspections to ensure on site conformity with approved plans and specifications. The progress of construction and rehabilitation is monitored. Requests for future advances of mortgage monies to provide for the payment of construction and rehabilitation of the project are submitted to FHA for approval and, if approved, each such advance is insured by FHA upon the disbursement thereof. Ten percent of each disbursement is withheld until the completion and final inspection of the project.

### **Final Closing and Final Endorsement**

Upon the completion of a project, a date is established for cost certification of the project and a certificate of substantial completion is issued by FHA. Final closing consists of a review and approval by FHA of the total cost of the project, as certified by an independent certified public accountant, and all operating income and expenses through the date established for cost certification. FHA reviews the documentation for final closing and the mortgage note is finally endorsed for insurance prior to the final construction disbursement. Prior to final endorsement the owner commences the marketing and rent-up of the dwelling units in the project.

The owner is required under the mortgage and a regulatory agreement between the owner and FHA in the form approved, by FHA for mortgage insurance under the National Housing Act, to provide from the revenues derived from the project payments for various reserves and escrows. (See "Summary of Mortgage Loan Documents" herein.)

#### **Collection of Insurance Benefits**

An event of default under the mortgage is defined under Section 221(d)(4) of the National Housing Act as the failure to make mortgage payments, when and as due, or to perform any covenant under the mortgage if the mortgagee has accelerated the debt as a consequence thereof. In the event of a default on the mortgage note or the mortgage continuing for a period of 30 days, a notice may be filed with FHA of the default and of the mortgagee's intention to file an insurance claim, and of its election to assign the mortgage note to FHA or to acquire and convey title to FHA. In the event of an assignment to FHA and the filing of a claim for insurance benefits, FHA will pay in cash (unless the mortgagee requests payment in debentures) insurance benefits in an amount equal to the sum of (i) the unpaid principal amount of the mortgage note, computed as of the date of default, (ii) certain eligible payments made by the mortgagee and (iii) interest on the insurance proceeds from the date of default at the HUD debenture rate in effect when the FHA insurance commitment was issued or as of the date of initial endorsement, whichever is higher (which interest may be limited in the event that certain notices are not given to HUD within the prescribed time periods), less certain amounts realized by the mortgagee from the mortgage. *Insurance benefits paid in respect of a defaulted mortgage loan ordinarily do not include accrued and unpaid interest on such mortgage loan.* In the event that HUD approves the assignment of a mortgage note involving a default beyond the control of the mortgagor, the insurance benefits payable to the mortgagee include the unpaid principal balance of the mortgage note as of the date of the assignment, together with accrued interest thereon. Prior to final endorsement of the mortgage note, FHA will normally but is not obligated to pay 70% of the insurance claim within 15 days and the balance, after audit, within three to twelve months. Subsequent to final endorsement, HUD will normally but is not obligated to pay 90% of the insurance claim within 15 days and the balance, after audit, within three to twelve months. In such an event prompt payment by FHA is subject to, *inter alia*, complete delivery by the mortgagee of all documentation required under the mortgage insurance.

#### **SUMMARY OF MORTGAGE LOAN DOCUMENTS**

The mortgage loan to each Owner will be made pursuant to a Mortgage Note, a Mortgage and a Building Loan Agreement. Each Owner will be further required to comply with the terms of a Regulatory Agreement. Such documents will be substantially in the standard forms approved by FHA for mortgage insurance under Section 221(d)(4) of the National Housing Act. Reference is made to such documents for complete details of the terms thereof and the summaries included below are qualified in their entirety by reference to the complete documents. The Corporation will act as mortgagee under each Mortgage through the Trustee and, upon the completion of each Project and the discharge of the lien of the Construction Loan Agreement, through the trustee under the Indenture, each an FHA approved mortgage. All right, title and interest of the Corporation in and to the Mortgage Notes and the Mortgages is pledged and assigned to the Trustee under the Construction Loan Agreement and thereafter to the trustee under the Indenture.

#### **Mortgage Notes**

The Mortgage Notes are non-recourse promissory notes, no personal liability will accrue for the payment of the principal or of interest on any Mortgage Note. The Mortgage Note relating to each Project will be initially endorsed for insurance by FHA in such principal amount, will be stated to mature on such date, and will bear interest at the rate commencing on such date, payable in equal monthly installments of principal and interest, as hereinafter set forth.

Under the terms of each Mortgage Note, in the event of the failure to make a payment, when and as due, which remains uncured on the next payment date, the entire amount of the Mortgage Note may be declared due and payable. In the event of a late payment of more than fifteen days, a penalty may be charged the Owner not in excess of 4%. Each Mortgage Note may be prepaid only with the consent of the mortgagee and HUD.

### **Mortgages**

In order to secure the payment of the debt evidenced by the Mortgage Note, each Owner will grant to the Corporation, as mortgagee, a mortgage on the Project site, on all buildings, improvements and fixtures to be constructed on the site and all articles of personal property of the Owner located on the site (the "Mortgaged Property"), and will further assign to the mortgagee all rents, profits and income to be derived from the Mortgaged Property. Until final payment of the indebtedness secured thereby, each Owner agrees not to sell, encumber or alienate the Mortgaged Property without the consent of the mortgagee and HUD.

Together with and in addition to the monthly payments due under the Mortgage Note, each Mortgage obligates the Owner to pay in escrow, on the first day of each month, an amount sufficient to provide the mortgagee with funds to pay the next annual mortgage insurance premium, estimated property insurance premiums and taxes and assessments payable with respect to the Mortgage Property.

In the event of the failure of any Owner to pay any of the sums required to be paid under the Mortgage, the mortgagee, at its option, may pay the same. All sums so paid by the mortgagee shall be added to the principal amount of the Mortgage Note, shall bear interest at the rate set forth on the Mortgage Note and shall be due and payable on demand.

Each Owner is obligated to keep the improvements existing or to be erected on the Project site insured against loss by fire and other hazards, in an amount not less than the lesser of 80% of the insurable value of the improvements or the unpaid balance of the insured Mortgage, and with a loss payable clause directing payment to the mortgagee and HUD, as their interests may appear. If the improvements are damaged by fire or other hazard, the proceeds of the applicable insurance policy shall be paid to the mortgagee, which may apply the proceeds to the repair or rebuilding of the premises or may apply the proceeds to the payment of the Mortgage Note. In the event of condemnation of the Mortgaged Property for public use, all awards of damages shall be paid to the mortgagee and the mortgagee may apply such awards to the payment of the instalments last due under the Mortgage Note.

Under each Mortgage, the Owner further covenants not to commit or permit waste or deterioration of the Mortgaged Property, not to voluntarily create or permit to be created against the Mortgaged Property any lien or liens inferior to or superior to the lien of the Mortgage, and not to execute or file for record any instrument which imposes a restriction upon the sale or occupancy of the Mortgaged Property on the basis of race, color or creed.

## **Building Loan Agreements**

Each Building Loan Agreement provides for the disbursement of the mortgage loan from the proceeds of the Notes to the Owner. The Owner is required to construct and rehabilitate its Project in accordance with the plans and specifications submitted therefor. All changes must be approved by the architect and any changes that will result in a net increase in construction costs, or will change the design concept, may be effected only with the prior written approval of the mortgagee and HUD.

Construction of each loan will be made upon monthly requisitions for an amount equal to the sum of (i) the total value of classes of work acceptably completed and (ii) the value of materials and equipment delivered, less a 10% retainage and prior advances. The mortgage loan must at all times remain in balance, i.e., the undistributed proceeds of the mortgage loan must be sufficient to complete the related Project. Upon final completion and approval of the Project, a final 10% retainage will be paid to the Owner. The Owner of each Project will provide, pursuant to HUD regulations, assurance of completion by supplying an unconditional and irrevocable letter of credit in an amount equal to 25% of the applicable construction contract.

Each Owner also undertakes to ascertain that all laborers and mechanics employed in the construction and rehabilitation of its Project are paid at not less than the prevailing wage rates. The Owners are required to submit proof with each requisition, adequate to HUD, of compliance with the wage requirements, and to submit a final certification to such effect prior to the distribution of the final construction advance.

## **Regulatory Agreements**

Pursuant to the Regulatory Agreements between HUD and the several Owners, each Owner must establish a reserve fund for replacements. The reserve fund for replacements will be funded by monthly payments by the Owner in the amount established by HUD. Monies in such fund may be disbursed, with prior HUD approval, to effect replacement of structural elements of the related Project or for any other purpose.

An Owner may not make, receive or retain any distribution of assets or income from its Project, except from Surplus Cash, without the prior approval of HUD and only as permitted under applicable laws. All distributions shall be made only or as of or after the end of a semi-annual or annual fiscal period and no distribution shall be made from borrowed funds, or prior to the completion of the Project or during a continuing default under the Regulatory Agreement, the Mortgage or the Mortgage Note. "Surplus Cash" is defined as cash remaining at the end of any semi-annual or annual fiscal period after the payment of (i) all sums due under the Mortgage and Mortgage Note and (ii) all amounts required to be deposited in the reserve fund for replacements and (iii) all obligations of the Project other than the Mortgage (unless otherwise provided for). Surplus Cash does not include any amounts held in special funds required to be maintained for the Project or tenant security deposits.

Except as provided in the HAP Contract, each Owner shall make dwelling accommodations and services of its Project available at charges not exceeding those established in accordance with a rental schedule approved by HUD. Accommodations shall not be rented for a period of less than thirty days or more than three years.

HUD will entertain a request for an increase in the rent schedule if supported by substantiating evidence of an increase in real property taxes or operating and maintenance costs over which an Owner has no control; provided, however, that the maximum rent for each dwelling unit subject to the HAP Contract shall be determined solely in accordance therewith.

In selecting tenants each Owner shall give preference to persons or families otherwise eligible under Section 8 of the United State Housing Act who have been displaced by urban renewal projects or as a result of government action or a major disaster, as determined by the President of the United States pursuant to the Disaster Relief Act of 1970. For 30% of the dwelling units subject to the HAP Contract, a special preference shall be given to those individuals qualifying as *very low income* tenants under the HAP Contract.

An Owner shall not, without the prior written approval of HUD, remodel, add or demolish any part of its Project, or engage in any other business or activity or incur any obligation or liability not in connection with such Project, or require as a condition of occupancy of any dwelling unit a deposit greater than the prepayment of the first month's rent plus a security deposit of one month's rent, or permit the use of such Project for any other use.

If any Owner should default under the Regulatory Agreement, HUD may require the acceleration of the full amount of the related Mortgage Note, take possession and undertake actual management of the Project or bring appropriate legal action to force the Owner to perform in accordance with the Regulatory Agreement.

#### UNDERWRITING

The Notes have been purchased at negotiated sale from the Corporation for resale by Blyth Eastman Dillon & Co. Incorporated and Fidelity Union Trust Company (the "Underwriters"). The purchase contract provides, subject to certain conditions, that the Underwriters will purchase all of the Notes, if any are purchased, at a purchase price of \$ , plus accrued interest. The public offering price of the Notes may be changed from time to time by the Underwriters and the Underwriters may allow a concession from the public offering price to certain dealers (including the Underwriters and certain dealers depositing the Notes into investment trusts).

#### INTERESTS OF CERTAIN PARTIES

#### TAX EXEMPTION

In the opinion of Kraft & Hughes, Newark, New Jersey, Bond Counsel, interest on the Notes is exempt from Federal income taxation under existing statutes and regulations, and is not includable as gross income under the New Jersey Gross Income Tax Act (P.L. 1976 C. 47). At or prior to the delivery of the Notes, HUD will deliver a written statement to the Corporation stating that interest on the Notes is exempt from all taxation now or hereafter imposed by the United States of America.

#### APPROVAL OF LEGAL MATTERS

Approval of all legal matters incident to the authorization, issuance and sale of the Notes by the Corporation is subject to the approving legal opinion of Kraft & Hughes, Newark, New Jersey, Bond Counsel, in the form attached as Appendix A to this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Willkie Farr & Gallagher, New York, New York.



### LITIGATION

At the time of delivery of and payment for the Notes, the Corporation and the Authority shall certify that there is no litigation of any nature then pending or threatened to restrain or enjoin the issuance or sale of the Notes or the financing of the Projects by the Corporation.

### RATINGS

Moody's Investors Service, Inc. has assigned the Notes a rating of . Such rating reflects only the view of such organization, and an explanation of the significance of such rating may be obtained only from such rating agency. There is no assurance that such rating will obtain for any specified period of time or that such rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Notes or the availability of a secondary market therefor.

### MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and, although there is no present expectation that such statements will not be realized, no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Notes.

The execution of this Official Statement has been duly authorized by the Housing Finance Corporation of the City of Newark.

HOUSING FINANCE CORPORATION  
OF THE CITY OF NEWARK

By \_\_\_\_\_

October , 1979